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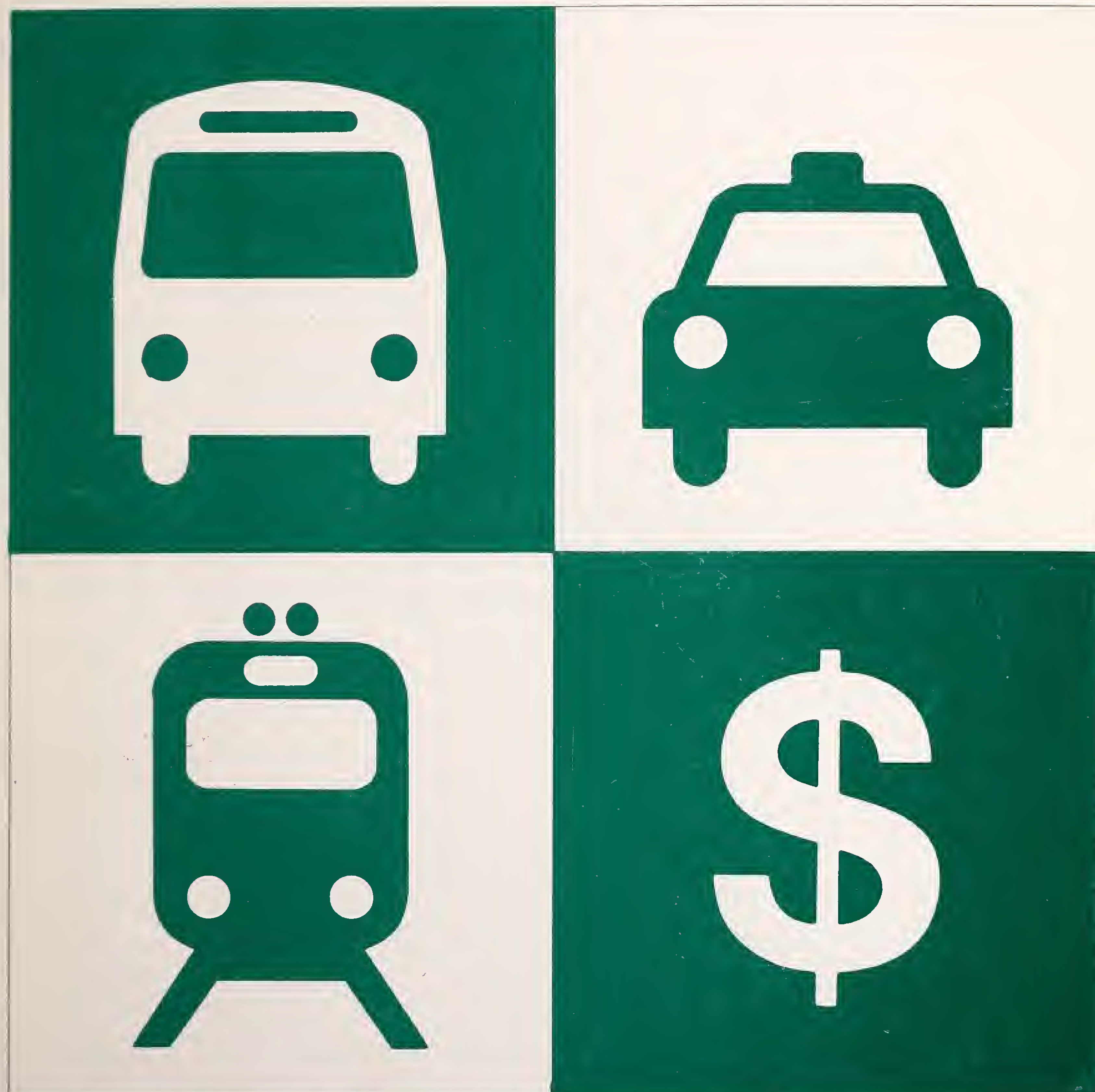
December 1982



A Guide to Innovative Financing Mechanisms for Mass Transportation

Final Report
December 1982

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Prepared for
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Urban Mass Transportation Administration
U.S. Department of Transportation
Washington, D.C. 20590

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FOREWORD

With fewer dollars available to meet growing local transportation needs, it is imperative that transportation planners consider a wide variety of potential financing techniques for mass transportation other than traditional subsidies. To assist local planners in the definition and application of proven financial techniques for mass transportation, UMTA has undertaken a state-of-the-art report in an effort to disseminate timely information. Only documented and proven techniques have been included for your consideration.

The Appendix for each technique provides a contact person who can provide you with more detailed information should you decide to locally implement a financing technique.

Additional copies of this report are available from the Office of Technology and Planning Assistance (I-30), Office of the Secretary, U.S. Department of Transportation, Washington, D.C. 20590. Please provide a self addressed mailing label and refer to UMTA-TX-06-0039-82 in your request.

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Rice Center expresses its appreciation to the UMTA staff for their review and to the many individuals in agencies across the country who have shared their experience.

This is the first of a series of publications to be produced by the Joint Center for Urban Mobility Research on the topic of innovative financial approaches and private sector support for public transportation. As such it defines, as much as possible, the current state of the art in this area.

Feedback from practitioners and users of this Guide on the accuracy, coverage, and currency of the information contained herein is enthusiastically encouraged to assist in the future update of this Guide. Additional methods of financing mass transportation should also be forwarded to the individuals noted below:

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Preface

The recent shift in emphasis from primarily Federal financial support of public transportation to greater local self-sufficiency has created an enormous challenge for our nation's urban transit community. The combined impacts of deteriorating transportation infrastructure and the need for expansion of transit in growth areas require financial support which simply cannot be provided solely from public resources. The traditional approach to planning, developing and maintaining transit, which has relied heavily on public subsidy, must change in light of the proposed New Federalism and the growing reluctance of local constituencies to increase taxation.

Accordingly, the generation of new sources of revenue and innovative applications of existing revenue to support transit must be encouraged on a widespread basis if the financial gap is to be filled.

The framework for innovation already exists. The Urban Mass Transportation Act provides several legislative incentives for local transit properties to ensure the maximum involvement of the private sector in supporting public transit activity and correspondingly, to reduce the financial burden on the taxpayer. Many state laws are being changed to accomplish the same purpose, and local transit authorities are applying innovative solutions to transit needs.

Moreover, the private sector is becoming increasingly aware of the importance of mobility to the future of its economic base. This translates in some situations into a willingness to participate financially, and otherwise, to support public transportation.

The purpose of this technical assistance report, therefore, is to identify and define innovative financial mechanisms which can be utilized by local transit leaders and planners to create the financial base necessary to the future of public transportation.

Overview of Guide

This report presents twenty-three financial mechanisms which have been utilized successfully to finance transit needs. The report is designed to introduce both public and private providers to a range of funding sources available and to facilitate their efforts in examining the applicability of financing mechanisms potentially useful to their transit needs.

The guide is divided into two sections. The first section gives a short summary of each mechanism, including the definition of the mechanism, its financial impact and the major issues affecting its applicability. The second section, the Appendix, documents examples of local application of these mechanisms, including names, addresses and telephone numbers of officials who have helped put each mechanism to work. The mechanisms have been grouped by type as follows:

I. Assessments
II. Taxes and User Changes
III. Use of Property and Property Rights
IV. Issuance of Debt
V. Contracted Services
VI. Voluntary Participation Programs
VII. Recent Initiatives and New Ideas

Application of Mechanisms

The innovative financial mechanisms cited herein may be useful in fulfilling a variety of financing needs to support local transit. The potential financial impact of each individual mechanism is dependent upon the transit requirement to be fulfilled and particular factors which relate to the transit entity's structure, the extent of local financial capabilities, and the nature of the local community. In this regard, we have departed from the traditional method of categorizing/grouping transit properties (e.g. technology, size of system, population of community, amount of ridership) and, instead, have identified factors such as organizational structure, legal status, financial independence and private sector potential, as more appropriate criteria upon which to evaluate the usefulness of the alternate financial mechanisms.

STRUCTURE OF PUBLIC ENTITIES

The ability of a public entity to utilize effectively innovative financing mechanisms to support public transit is largely dependent upon the type of organizational structure of which it is a part and the legislative/legal basis for its existence. A more financially independent and secure entity likely will enjoy a greater range of innovative financial flexibility (e.g. issuance of debt, joint development), while a more dependent entity might have greater success from using mechanisms which reduce costs of providing service.

Several mechanisms require the creation of separate legal entities, such as Special Benefit Districts and Tax Increment Districts, to create the greater financial, administrative and political flexibility necessary to address specific transit needs. The following categories identify several legal structures into which most of today's transit entities can be grouped:

- General Purpose Governments: Established at the state, local and regional level by constitution, statute and/or ordinance. These entities generally have broad powers to provide a myriad of services to a community, establish community goals and objectives, and enforce community standards. Financial support is usually provided through broad powers of taxation. More importantly, the governing legislative bodies may amend the powers of the General Purpose Governments.

  General Purpose Governments usually are not prohibited from dealing with the private sector, but may have limitations on lending faith and credit to the private sector.

Within the full range of General Purpose Government obligations and opportunities, transit needs generally compete with many other infrastructure needs of the community for political and financial support.

- Limited Purpose Governments: Traditionally provide the basis for local transit authorities which are established pursuant to state enabling legislation. The powers of these entities are more narrowly focused on the specific needs to be addressed. Many of these entities are limited in the type of revenue sources used (e.g. sales tax, corporate tax), and the type of debt which may be issued. Changing the powers of such entities usually requires legislative action, local ordinance and/or public referendum.

  The powers of such entities to deal with the private sector vary widely. Limited Purpose Governments have greater legal and financial flexibility than General Purpose Governments in the use of innovative financial mechanisms.

- Public Non-Profit Corporations: May be set up on behalf of a general or limited purpose government with their directorates appointed by the same. Such an entity is likely to have more specifically prescribed functions by charter and is likely to be less central to ongoing political scrutiny faced by more general purpose entities. Such entities are more likely to function like a private business, having the flexibility to deal with other private entities.

- Private Non-Profit Corporations: Are similar to Public Non-Profit Corporations, but are directed and controlled by privately appointed boards -- having no stockholders. Such entities generally have complete power to borrow and to enter into agreements with private entities. This type of structure has greater flexibility in involving private sector financial support than a Public Non-Profit Corporation. It also has the ability to transfer a capital cost into an operating expense.

- Private Corporations: May have stock and a publicly elected board. Such entities earn a return for their investors and are totally empowered to enter into agreements with other private entities. Private Corporations may be useful as investors (e.g. "Safe Harbor Leasing") or as contractors providing cost effective transit services.

CHARACTERISTICS OF REGION

Type of Service Needed: Public transit is assumed to include any form of transportation for two or more people which is available to all without restriction, on a regularly scheduled or demand-responsive basis. Private financing opportunities vary from one service type to another. Low density service may be a primary opportunity for direct private provision. At the other extreme, heavy rail corridor transit may provide opportunities for vendor financing (of equipment), real estate, development revenues, special taxing districts and/or turnkey deals.

Urban Region Size/Growth Rate: Potential for private financing exists in regions of any size and growth rate. However, the willingness of the local private sector to seek opportunities for investment in transit may be influenced by its perception of the beneficial impact of transit. Private enterprise in high growth communities may be willing to assist, financially and otherwise, in the timely development of transit improvements to secure other investments in the community. Community size may be directly related to the needs for and types of services provided. For example, major permanent capital expenditures in transit systems in large/high demand communities may attract substantial private investment in related real estate development. Several mechanisms presented herein are based on recapturing some of this related investment to assist in defraying these capital expenditures. In lower density settings opportunities may exist for direct private provision of transit services or the private sector subsidization of services provided by a public entity. Direct private provision in this case may be more cost effective for the local public transit entity than its own provision of the service.

Private Leadership Opportunities: Some mechanisms presented herein allow for a private entity to take the lead in making an investment in local transit (e.g. private service provisions, employer sponsorship, private donations, vanpooling programs). Regions vary significantly in the strength of the private sector, its interest in transit and its past or current activism in civic affairs. These factors are critical in assessing the potential for private sector participation.

Use of Financial Mechanisms for Transit Agency Objectives

The following table provides a quick method of identifying financial mechanisms best suited to achieve a specific objective. The objectives have been grouped by the following financial use categories:

Support Facility Development: Mechanisms to generate additional revenue or provide access to capital to build facilities.

Support Operating Requirement: Mechanisms to generate additional revenue to help offset operating expenses.

Replace Capital Need/Replace Operating Requirement: Mechanisms to replace a service demand that otherwise would be undertaken directly by the transit entity.

Support Equipment Purchase: Mechanisms to provide a direct revenue stream or debt service to help support equipment purchases.

Replace Equipment Purchase: Mechanisms such as contracted service with private providers to reduce the need for purchasing capital equipment by the public entity.

Transfer of Capital Cost to Future Operating/Maintenance: Mechanisms to effectively transfer a direct and immediate capital cost requirement into a long term operating cost.

Transfer of Operating/Maintenance to Future Capital Cost: Mechanisms to transfer ongoing operating costs into lump sum capital obligations or to defer capital expenditures to a future time.

Use of Financial Mechanisms for Transit Agency Objectives

MECHANISMS	Supports Facilities Development	Supports Operating Requirement	Replaces Capital Need	Replaces Operating Requirement	Supports Transit Equipment Purchase	Replaces Equipment Purchase	Transfers Capital to Future O&M	Transfers O&M to Future Capital
I. Assessments								
A. Special Benefits Assessments	X	X						
B. Private Negotiated Investments			X					
C. Tax Increment Financing	X	X	X	X				
D. Transit Impact Requirements	X	X			X	X		
II. Taxes & User Charges								
E. Corporate Payroll Tax	X	X			X			
F. Employee Income Tax	X	X			X			
G. Peak Hour Surcharge		X						
III. Use of Property & Property Rights								
H. Land Banking	X							
I. Leasing/Selling Development Rights	X	X			X			
J. Leasing/Selling Existing Facilities								

MECHANISMS	Supports Facilities Development	Supports Operating Requirement	Replaces Capital Need	Replaces Operating Requirement	Supports Transit Equipment Purchase	Replaces Equipment Purchase	Transfers Capital to Future O&M	Transfers O&M to Future Capital
IV. Issuance of Debt								
K. Certificates of Participation	X				X		X	
L. Interest Arbitrage	X				X			
M. Lease Purchase Agreements	X				X		X	
N. Safe Harbor Leasing					X		X	
O. Vendor Financing	X				X		X	
P. Zero Coupon Bonds	X				X			X
V. Contracted Services								
Q. Taxis			X	X		X	X	
R. Transit Service Maintenance/ Management			X			X	X	
S. Vanpooling				X		X	X	
VI. Voluntary Participation Programs								
T. Donations for Capital Improvements	X	X				X		
U. Employer Sponsored Pass Program		X						
V. Lottery	X	X				X		
W. Private Provisions Services			X	X		X		

I. Assessments

The four mechanisms described in this section all involve dedicated revenues or in-kind contributions from the private sector. Each mechanism involves an assessed or negotiated payment for special benefits received from a public investment or for the mitigation of an impact to public infrastructure caused by private development.

A transit agency objective in using these mechanisms is to raise revenue or defray a portion of project costs (either capital or operating and maintenance). As distinct from general taxing mechanisms, these four mechanisms entail the collections from developments within prescribed geogrpahical areas directly affecting - or affected by - the transit project in question.

The four mechanisms discussed are the following:

A. Special Benefit Assessments
B. Negotiated Investments
C. Tax Increment Financing
D. Transit Impact Requirements

Definition

A special benefit assessment is a tax on all properties within a special benefit district to pay for all or a part of the cost of specific improvements made within the district. The boundaries of the district are defined to include all properties specially benefitting from the improvement. Because a transit facility, such as a station or a mall, may provide benefits to nearby property owners that are greater than the benefits provided to the community at large, special assessments constitute an opportunity to finance some transit related improvements.

The assessment may be levied by district or city council, whichever has the appropriate authority. The improvements are usually financed with bonds backed by the assessments. Assessments are one-time or reoccurring liens which are issued by the local government in accordance with a formula for recouping some of the costs of the benefits provided. Assessment formulas may be based on site size, floor area, or other measures.

Financial Results

Special benefit assessments can be used to pay for up to 100% of the cost of transit facilities or services within a special assessment district. The assessments typically will be used to retire the bonds financing the improvements. Revenue potential will depend upon the cost of improvements or services, the size of the district, and the intensity of economic activity within the district. Revenue potential also depends on the attractiveness of rents within a district compared to rents in other places within the region, because businesses may move to escape the special assessments.

Major Issues

Legal: Special state enabling legislation usually is required before a transit agency or other local entity can make special assessments. Inter-governmental agreement authority for a transit agency or other local entity may be required in order for the agency to receive assessment revenues. A major legal issue is the necessity to develop an assessment formula that recognizes the difference between the special benefits of the improvements to certain property owners and the benefits to the community at large.

<u>Political</u>: This financing mechanism does not create a new community-wide tax and, therefore, may be a politically desirable method of raising revenues to address a specific need. Irrespective, gaining support from those whose property is within the proposed assessment district constitutes a major political activity.

<u>Applicability</u>: Special assessments have been used for transit services but have been primarily used to pay for sidewalks and street and alley repaving.

Experience See Appendix A, page A-1, for an example and person to contact in Denver, Colorado.

Definition

A negotiated investment is a commitment by a developer to contribute to the cost of public improvements necessary to support his new development. The developer's commitment usually is offered in exchange for changes to existing land use regulations that are needed to execute his project. Local governments often can utilize their zoning or building permit authorities to bargain with developers to pay for transit-related improvements required to provide access to the new development area.

Negotiated investments vary in amount and form, depending on the size of the project and on the demand for public services generated by the it. If paid in cash, the investment usually approximates the costs of improvements needed (e.g. $30 million for modifying a station to accomodate more people). If paid in kind, the investment may vary from building a bus shelter to sponsoring ride sharing programs.

Financial Results

The revenue potential for negotiated investments is significant. In selected cases, agreements between public entities and developers have ranged from $18 million to $100 million.

Major Issues

Legal: Negotiated investments raise some questions about the extent to which conditions may be attached to zoning approvals. For example, courts have objected, in some cases, that contract zoning unfairly confers special treatment on the owners of the rezoned land.

Some states permit forms of bargaining for zoning changes or permit approvals, such as planned unit development (PUD) zoning, where the developer and planning commission have considerable flexibility in determining densities and required improvements. In these states, enabling legislation, local ordinances or charters define the procedures for negotiations and the types of permissable bargains. The bargains usually involve measures to mitigate the negative impact of development. Typically, the transit authority/agency will not have zoning authority and must rely on the zoning/land use control process established by the local government.

Political: Transit agencies must exercise their political skills to influence the negotiated investment process, which often takes place between the developer and the planning commission, or with whatever other body having power to grant changes in land use regulations.

Applicability: Opportunities to bargain with developers are limited by the rate of construction/growth in the area, the extent of mobility requirements, and the desirability of the location selected for development. If the bargaining process becomes too protracted or the demands too excessive, the developer may decide to move his proposed project to another location.

Experience See Appendix B, page B-1, for example and persons to contact in New York City and Fairfax County, Virginia.

Definition

Tax Increment Financing (TIF) is a method of financing public improvements with dedicated property tax revenues. A Tax Increment Finance District is established in the area most directly benefitting from the improvements, and a "base-year" assessed property value is determined. Property taxes collected on the base year value within the district are distributed to pre-existing taxing jurisdictions as usual; however, taxes collected on any increases in property values above the base year value are dedicated to financing the public improvements within the district. The revenues may be used to secure bonds for the improvements or to pay for the improvements directly. Since substantial increases in property values are more likely to result from large, rather than piecemeal, public investments, issuing bonds backed by TIF funds is the most preferred method.

Financial Results

Tax Increment Financing has the potential of generating significant revenues. The magnitude of revenues available within a given district depends upon the local ad valorem tax rate, the size of the district, the amount of development or redevelopment which occurs after the base-year, and the cost of the public improvements to be made under the development plan. Tax Increment Financing can be used to pay for up to 100% of the cost of the public improvements.

Major Issues

Legal: State enabling legislation and subsequent local ordinances are required to establish Tax Increment Districts. In most states, the authority is given to urban redevelopment agencies and not to transit agencies. However, transit-related improvements usually are considered to be an eligible component of an urban redevelopment project. Tax Increment Financing can be utilized only by those jurisdictions with ad valorem taxing authority, which generally excludes most transit agencies. Accordingly, transit agencies desiring to use Tax Increment Financing must enter into inter-governmental agreements so that funds can be transferred from the taxing jurisdiction to the transit agency.

Political: Resistance to the creation of Tax Increment Districts often comes from taxing jurisdictions, such as School Districts or Hospital Districts, which rely heavily on property tax revenues and which will be deprived of additional revenue by TIF districts.

In addition, in most states, funds backed by tax increment revenues are treated as revenue bonds, rather than general obligation bonds, and, therefore, do not require voter approval.

Applicability: Tax Increment Financing currently is allowed in 37 states. It has generally been applied to public improvements other than transit (such as streets, sidewalks, water lines, storm sewers, sanitary sewers, parking facilities). It assumes an increase in property values and is, therefore, limited to areas with potential new real estate development.

Marketability of tax increment bonds is highly dependent upon investor confidence in future development within the area. If lands were sold, and development did not increase as projected, the taxing jurisdiction would have to resort to ad valorem tax revenues (other than from the increment) to retire the bond debt.

Experience

See Appendix C, page C-1, for an example and person to contact in Beaverton, Oregon.

Definition

Transit impact requirements are fees and requirements imposed on developers to mitigate the impact of their new projects on transit service. The requirements are established by local ordinances as a condition for obtaining building permits. These requirements have been justified on grounds that new development will exacerbate peak-hour traffic or transit problems and, thus, should pay for solutions to mitigate the potential congestion. The requirements may take a variety of forms. For example, the requirement may be a fee based on the square footage of new development or it may be sponsorship of ridesharing programs.

Financial Results

Fees can yield substantial revenue ($37 million in at least one major urban area). In other cases, developers have committed to support significant ridesharing activities, which, in turn, is expected to reduce the financial burden on the transit system.

Major Issues

Legal: Local ordinances are usually necessary.

Political: Developers may object to the requirements, arguing that they discourage growth and impose unfair economic burdens on their businesses.

Applicability: Utilization has been limited to growth areas where the cost of the requirements will not drive development to alternative locations with lower cost requirements.

Experience

See Appendix D, page D-1, for examples and persons to contact in San Francisco and Placer County, California.

II. Taxes and User Charges

Several general taxing mechanisms are commonly used by states, municipalities and transit authorities to support transit development and operations. These include dedicated sales taxes and allocations from state or local income, property or excise taxes, and vehicle license fees.

This section, however, deals with three less common taxes and charges. As with the assessment mechanisms described in Section I, this second group of mechanisms targets the taxes or charges to those who benefit by transit, either because of their special proximity to transit services or because they are using premium service beyond prevailing service standards.

These three mechanisms, whose objective is to supplement general revenues are the following:

E. Corporate Payroll Tax
F. Employee Income Tax
G. Peak Hour Surcharge

Definition

A payroll tax is a percentage tax on all payrolls which is paid by employers within a defined geographical area. These tax payments, considered to be business expenses, are deductible from corporate income subject to federal, state, and local taxes. The tax may be applied to all private employers within the defined area, or it may exempt non-profit organizations such as private charitable or educational institutions. State and local public agencies are also usually exempt. Payroll taxes already are being used for various social security purposes such as retirement, medicare, unemployment, and pension and other benefits negotiated by labor unions. Benefits to the employer of such a tax being used for transit employer are as follows:

- o The employer gains access to a larger work force than would be available with unreliable or no transit.
- o Transit can reduce the need for parking space, which can be a major cost to employers.
- o Employee morale may be improved if transit services better relieve traffic congestion during peak rush hours and, thereby, reduce commuting time.

Financial Results

In Portland, Oregon, the payroll tax generated $37 million in revenues in 1981, representing 55% of the district's operating budget. In Eugene, the tax generated $4.9 million, or 63% of its 1981 operating budget.

Major Issues

<u>Legal</u>: State constitutions or statutes may restrict public entities from using the payroll tax at the local level.

<u>Political</u>: Employers may object to paying an additional employee-related expense. In addition, employers may argue that this tax would discriminate against those employers whose employees do not have convenient access to transit.

<u>Applicability</u>: Utilization of the payroll tax for transit purposes has been limited; but where used, it has been successful in generating substantial revenues.

Experience

See Appendix E, page E-1, for examples and persons to contact in Portland, Oregon and Eugene, Oregon.

Definition

The employee income tax is a flat-rate percentage tax deducted from the employee's wages or paycheck. This type of tax is imposed upon all employees who work within a specifically designated area, regardless of place of residence. Traditionally, this tax has been utilized to raise general revenues. However, in the cases of Ohio and Kentucky, revenues from employee income taxes have been dedicated to support public transportation.

Financial Results

In 1981, Cincinnati, Ohio generated $12 million, representing approximately 30% of its transit operating budget. In the same year, Newport, Kentucky generated $1.9 million, or 24% of its transit operating budget.

Major Issues

Legal: Special enabling legislation must be passed by the state legislature before local entities can levy an employee income tax. If a state gives the taxing authority to overlapping jurisdictions, disputes may arise over which entity can utilize the tax. Some states resolve potential conflicts among overlapping jurisdictions by stipulating that a total fixed percentage of income may be charged for income taxes.

Political: People who do not use the public transit system may conclude the tax is unfair. This form of taxation is difficult to sell politically at the local level. In addition, the public may object to a local income tax in addition to a federal and state income tax.

Applicability: Only two states, Ohio and Kentucky, have authorized their local transit authorities to impose an employee income tax.

Experience

See Appendix F, page F-1, for examples and persons to contact in Cincinnati, Ohio and Newport, Kentucky.

G. Peak Hour Surcharge

Definition

A peak-hour surcharge is a charge placed on commuters who travel during peak hours, usually 6:00 a.m. to 9:00 a.m. and 3:00 p.m. to 6:00 p.m. Depending on the magnitude of the price increase and the riders' sensitivity to fare changes, the surcharge may generate an increase in farebox revenues. The revenue increase will come from those commuters who do not object to higher fares, or who lack the ability to shift their travel times to off-peak hours or to use other means of tranportation. The peak/off-peak pricing differential is justified on grounds that the cost of acquiring, operating and maintaining equipment to accommodate heavy peak-hour service demands should be charged to the peak-hour riders benefiting from the service.

Agencies also have introduced fare differentials by reducing off-peak fares to avoid future expenditures for additional peak-hour capacity. The lower fares, again depending on price sensitivities, may encourage a more even distribution of ridership throughout the day.

Financial Results

It is difficult to estimate the effects of surcharges on ridership and farebox revenues. Experiences indicate that commuters on rail lines with an automated fare collection system have lower price elasticity than bus riders. Recent attempts to impose peak-hour surcharges on bus fares have been so unsuccessful that the surcharge policies are being abandoned. The effect of a fare surcharge appears to depend on a number of factors, including the cost of the rider's alternative means of transportation and the flexibility of the ridership to shift from peak to off-peak hours.

Major Issues

Legal: Transit agencies may need approval of their boards of directors or city council to implement a peak-hour surcharge program.

Political: Unions may oppose the peak-hour surcharges on grounds that the confusion over the fare structure leads to passenger/driver disputes, particularly around the beginning and end of the peak-hour periods.

Applicability: Although a number of cities have offered systemwide off-peak fare reductions to attract new ridership, only a few large cities with rail systems have increased farebox revenues through peak-hour surcharges.

Experience

See Appendix G, page G-1 for examples and persons to contact in Kansas City, Missouri, and Washington D.C.

III. Use of Property and Property Rights

A transit agency undertaking capital projects (maintenance facilities, park-and-ride lots, guideways, and stations/ terminals) leases or purchases real property, either in fee simple or in partial interest. Agencies can acquire property by direct purchase or by condemnation -- the latter requiring more stringent proof of public purpose. Once an agency has full or partial interest in a property it can -- subject to legal restrictions -- dispose of any portions which are not needed for the transit purpose. Such property which is available for disposition constitutes a transit agency's real estate portfolio.

The objective of the first mechanism described in this section is to reduce costs of land acquisition to a transit agency. The objective of the other two mechanisms described in this section is to maximize the financial yield from a transit agency's real estate portfolio. These mechanisms generate cash sums, either in lump sums or income streams over a number of years.

The three mechanisms discussed are the following:

H. Land Banking
I. Leasing/Selling Development Rights
J. Leasing/Selling Existing Facilities

Definition

Land banking is the advance acquisition and holding of land for planned future uses. Land banking permits transit agencies to purchase the most desirable sites at affordable prices -- before inflation and speculation drive up the land values and force transit agencies to locate facilities in less suitable areas or to pay exorbitant prices. The Urban Mass Transportation Administration has provided funding for land banking through its Advanced Land Acquisition Loan Program which loans 100% of land costs at attractive interest rates for properties to be used for transit purposes within a 10 year period. Purchase can take place before plans for future facilities are finalized.

Financial Results

Land banking can save transit agencies large amounts of money, depending on the amount of future land required and the growth of land values. Capital cost savings are gained though reduced future outlays. If the purchased property subsequently becomes useless for transit purposes, it can be sold, in most instances, for a profit. While the cost of land banking initially can be expensive, the ultimate savings in inflation and land speculation costs usually will more than offset the initial cost of acquisition and produce substantial savings.

Major Issues

<u>Legal</u>: Some state constitutions and statutes preclude acquisition or condemnation of property for future use.

<u>Political</u>: Elected officials often perceive short term investments to be higher funding priorities than long term investments.

<u>Applicability</u>: Utilization by transit agencies has been limited to date.

Experience

See Appendix H, page H-1, for examples and persons to contact in Boston & Philadelphia.

Definition

In many instances, transit agencies acquire land in the process of constructing transit improvements which is not of immediate transit use. Its full value is sometimes captured by leasing or selling the air or subsurface rights of remnant parcels associated with the land package. A classic example is New York City's agreement to lease the air rights over Grand Central Station for construction of the Pan Am Building.

Whenever the financial analysis is supportive, transit agencies prefer to lease development rights. In contrast to a one-time payment from a sale, transit agencies prefer the steady stream of income for the term of the lease, usually 99 years. In either case, the funds can be used to offset operating costs or to finance future capital investments.

Financial Results

Leasing/selling air or subsurface rights is a way of generating substantial amounts of revenue for transit agencies. Two major cities have negotiated leases for air rights above transit facilities which will provide, in one case, a minimum of $65 million over a 15-year period and, in another, a minimum of $100 million over a 99-year period.

Major Issues

Legal: Recently, property owners have begun to question in court whether local eminent domain powers permit public entities to acquire the air and subsurface rights associated with condemned land parcels. The questions have been raised in cases where the rights are not essential to achieve the public purpose for which the land has been condemned.

Political: The public may complain that the lease/sale agreement benefits the private developers more than the public sector, particularly if the agreement obligates the transit agency to build a portion of the air rights facility or offers extremely favorable terms for the developer.

Applicability: Developers will be interested in leasing or purchasing air rights over facilities only in real estate markets strong enough to provide a rate of return sufficient to cover the high costs of air rights construction.

Experience

See Appendix I, page I-1, for examples and persons to contact in Denver and Miami.

Definition

Local governments and transit agencies in need of additional funds may be overlooking vacant or underutilized properties as a source of revenue. Transit terminals, park and ride lots, and maintenance facilities may be free for other uses because of shifts in demographics, changes in anticipated real estate development, construction of new facilities, or creation of new authorities. In these instances, transit agencies have the opportunity to generate additional revenues through the sale or lease of existing facilities. For example, agencies might be able to lease a portion of their terminals to compatible service providers or to sell the entire facility to an inter-city bus or trucking industry.

Financial Results

Leasing or selling existing facilities will generate low to moderate amounts of revenue. The revenue potential depends on three major factors: (1) the availability and condition of underutilized facilities or property; (2) the strength of the real estate market surrounding the facility; and (3) the proportion of the original investment by the transit agency, because both the municipality and UMTA may require transit agencies to return a percentage of lease or sale proceeds from projects partially financed with local or UMTA funds.

Major Issues

Legal: Transit agencies need special authority to purchase and dispose of land or facilities no longer needed for transit purposes. Condemnation of land for the sole purpose of leasing or selling land for a profit is unconstitutional.

Political: Proposals to lease or sell transit facilities rarely generate political opposition.

Applicability: Utilization by transit agencies has been limited, although leasing facilities is not new to municipalities.

Experience

See Appendix J, page J-1, for examples and persons to contact in Fargo, North Dakota and Toledo, Ohio.

IV. Issuance of Debt

Major capital improvements of equipment purchases cause a transit agency to incur high "front-end" expenses with or without UMTA Section 3 assistance. The six mechanisms described in this section relate to two aspects of financing capital expenditures over time: 1) types of instruments which accomplish this purpose and 2) ways to reduce the cost of borrowing. It is important to understand that instruments must meet the needs of the agency and offer attractive returns to investors. Investors are interested in factors concerning risk, cash flow, tax-exempt status and title (and, therefore, depreciation rights).

A transit agency's objective in using the following mechanisms is to spread payments for capital expenditures over time to more closely match revenue sources. Implicit in this objective is the desire to minimize the associated interest cost.

K. Certificates of Participation
L. Interest Arbitrage
M. Lease Purchase Agreements
N. Safe Harbor Leasing
O. Vendor Financing
P. Zero Coupon Bonds

Definition

A certificate of participation, sometimes known as an equipment trust certificate, is a certificate (much like a bond) which serves as evidence that an investor owns a percentage of interest in a piece of equipment or property. Certificates of participation allow the cost of the equipment or property to be spread among many investors. Each investor owns a percentage of the title to the equipment or property and "leases" his share back to the municipality. Certificates of participation commonly are utilized to finance lease-purchase agreements.

The maturities of certificates approximate the life of the asset, usually 10 to 12 years. At maturity, the sum of the monthly lease payments equals the investors' principal plus interest. The certificates usually are retired with monthly payments by the public entity through a trust bank. Investors are attracted to certificates by their tax-exempt interest and monthly payments on short term maturities.

Financial Results

Certificates of participation can be used for both small and large capital projects. One major transit agency raised $29 million to help finance the purchase of 1,000 new buses.

Major Issues

<u>Legal</u>: In order for the interest component of the monthly payments on the certificates to be tax-exempt, the agency must qualify as a political subdivision under Section 103 of the IRS Code and the contract must be structured as an installment sales contract. Such a contract differs from a true lease, where the lessor retains ownership of the asset before, during, and after the contract.

<u>Political</u>: In most cases, this form of debt issuance does not require new legislation. Public acceptance is generally high due to the short-term nature of the debt instrument.

<u>Applicability</u>: Certificates of participation can be used to finance a variety of capital acquisition through lease-purchase agreements, but not to finance operating budgets.

Experience

See Appendix K, page K-1, for an example and persons to contact in Los Angeles, California.

Definition

Interest arbitrage is the process of privately investing funds, borrowed at low interest rates, in financial instruments returning a higher rate of interest. Under certain circumstances, state and local governments can arbitrage money borrowed at tax-exempt rates. Public entities usually are interested in arbitrage as a way to maximize the use of temporarily unspent bond proceeds or the use of debt service reserve funds.

In general, public entities are prohibited from engaging in interest arbitrage. However, under a narrow set of circumstances defined by the IRS, public entities can engage in interest arbitrage, but the penalties for not following the guidelines are severe. If the IRS finds illegal use of arbitrage opportunities, the interest on the bonds will become taxable. Under existing IRS regulations:

- public entities are permitted to reinvest bond proceeds for a period of up to three years on that portion of the proceeds that is to be used to pay for capital projects; and

- public entities are permitted to reinvest debt service reserve funds for the duration of the bonds.

Financial Results

Revenue potential is dependent upon the differential between the municipal lending rate and the market rate. This differential is usually around 3-4%, and can generate significant amounts of revenue. For example, if $60 million is borrowed at 8.5% by a public entity, and half of the amount is not needed for three years, the entity may reinvest $30 million at 12% for three years. The higher interest rate on the investment will earn $1 million more a year than is paid to the bondholders.

Interest arbitrage can be conducted in a variety of situations. For example, a statutorily created transit agency desires to purchase 100 buses at a cost of $15 million. Rather than acquire the buses through an outright purchase, the agency borrows $15 million at a tax-exempt interest rate. The agency then enters into a lease-purchase agreement with private investors, whereby the investors actually purchase the vehicles and the public agency leases them back. While making lease-purchase payments with the bond proceeds, the public entity can invest the unspent amount of the borrowed money.

Major Issues

Legal: In order to avoid severe penalties imposed by the IRS, public agencies must be very cautious about using interest arbitrage.

Political: The private sector and general public may object to public entities taking advantage of their tax exempt status by investing public funds at higher rates.

Applicability: The legal restrictions on this financing mechanism limit use of interest arbitrage by a public agency. The use of private intermediaries offers greater flexibility to reinvest bond proceeds or other borrowed money.

Experience

See Appendix L, page L-1, for examples and persons to contact in Houston and Los Angeles.

Definition

A lease-purchase agreement permits a public entity to purchase equipment or property on an installment basis. Financing for lease-purchase agreements often is arranged for public entities by financial institutions. The financial institution finds one or more investors to purchase all or a portion of the equipment or property and then to lease their shares back to the transit agency. Under the agreement, the public entity agrees to make payments of the purchase price plus interest over a period of years in exchange for the right to use the asset immediately and the right to purchase the asset for a nominal fee at the end of the contract.

Lease-purchase agreements are attractive to investors who benefit from the tax-exempt interest payments. In order to generate tax-exempt interest, the public entity must be a political subdivision under the requirements of Section 103 of the IRS Code. In addition, the contract must not be classified as debt by state or local law. To overcome this problem, a non-appropriation clause is inserted in the contract which permits the public entity to terminate, without penalty, the contract if funds are no longer available.

Financial Results

Lease-purchase agreements have been used to finance the acquisition of assets ranging in value from $20,000 to several million dollars. Down payments rarely are required. Lease-purchase agreements involve interest rates 1-2% higher than bond rates, because the non-appropriation clause implies a higher risk to the investor.

Major Issues

Legal: A lease-purchase agreement must include a non-appropriation clause. In addition, it must be signed by a public entity that qualifies as a political subdivision under Section 103 of the IRS Code.

Political: Because lease-purchase agreements are not considered to be debt, voter approval is not needed.

Applicability: Lease-purchase agreements are becoming a more popular means of acquiring equipment and property as it becomes more difficult to issue general obligation bonds.

Experience

See Appendix M, page M-1, for an example and person to contact in Houston, Texas.

Definition

The "safe harbor" provisions of the Economic Recovery Tax Act of 1981 and the 1982 Tax Act permit public transit agencies to "lease" their rolling stock from private corporations, and, thereby sell the accelerated depreciation deductions associated with that equipment to private corporations seeking shelter for their taxable income. This opportunity currently is available on the purchase of vehicles under contract by March 31, 1983 and placed in service by December 31, 1987. The tax exempt obligations to support use of "safe harbor" leasing must be issued by December 31, 1984.

In a typical safe harbor lease transaction, the transit agency lends, through a debt instrument (a paper transaction), bond proceeds or other funds to a tax-paying firm. The firm purchases the rolling stock with the money lent it, and leases the vehicles back to the transit agency. The lease payments are usually equal to the debt service payments owed by the private firm to the transit agency. The private investor must put up cash equal to at least 10% of the purchase price. A minimum of 5% of the transit agency's share must be from a non-taxable funding source. Only tax benefits on the non-federal share of the purchase can be transferred to a private investor. At the termination of the lease, usually 12 years for buses and 30 years for rail vehicles, the transit agency purchases full ownership of the equipment for a nominal sum.

Financial Results

Since August of 1981, a minimum of 15 safe harbor deals have been negotiated, involving over $400 million in equipment.

Major Issues

Legal: The transit agency must finance 5% of the total purchase price from a tax exempt funding source. The private investor must contribute at least 10% of the purchase price. Tax benefits can only be transferred on the 20% local share of the purchase when UMTA Section 3 Capital Grants funds 80% of the purchase.

Political: This financing mechanism results in a direct loss to the U.S. Treasury, because it substantially reduces federal tax liabilities of participating private corporations. However, others will argue that increased transit productivity will provide additional revenue to the Treasury. This dispute makes extension of the safe harbor provisions uncertain.

Definition

Vendor financing is an arrangement by which manufacturers of transit vehicles provide financing to local governments for the purpose of purchasing their equipment. Transit agencies, as part of the competitive bidding process, may request vendors to offer attractive terms for loans, loan guarantees and other devices to give the agency access to credit in amounts sufficient to finance the purchase. Vendors may respond with a financing proposal involving a loan from their own resources or a bank, or involving a lease-purchase agreement with a financial institution. Foreign vendors sometimes have won competitive bids by obtaining low interest loans from the export- import banks in their respective countries. The debt usually is secured by the vehicles and is retired with tax or operating revenues.

Financial Results

Vendor financing can be arranged for any amount up to the value of the equipment serving as collateral. Vendors sometimes offer financing at below market interest rates, because the vendors are anxious to demonstrate their vehicles in use. However, attractive vendor financing may be a substitute for a lower purchase price. Transit agencies should compare the financing costs of the vendor's offer with the terms of financing available from other sources.

Major Issues

Legal: Transit agencies will need authority to issue long-term debt. Vendor financing backed by the purchased equipment does not generally require a specific revenue pledge.

Political: "Buy American" advocates have criticized transit agencies for accepting subsidized loans from foreign vendors.

Applicability: Vendor financing is the most common form of debt used to finance the local share of UMTA-funded transit buses and train cars.

Experience

See Appendix O, page O-1, for an example and person to contact in New York City.

Definition

Zero coupon bonds are bonds sold at prices substantially below their face value and at a zero coupon rate. Upon maturity, the issuer pays the face value of the bond in one lump sum to the investor; no interest payments are made during the life of the bond. The discounted price is set so that the difference between the bond's purchase price and value at maturity will provide a yield that is competitive with other investments in the marketplace. As a result, a 20-year zero coupon bond with a face value of $1,000 may sell for around $17 or less. The IRS considers the discount to be interest income and tax-exempt for bonds issued by public entities.

Financial Results

Public entities may be able to achieve savings of 0.6-4% on the relative interest cost of zero coupon bonds. In 1982, one major transit authority saved an estimated $6 million (in real terms) on the total cost of borrowing $8.2 million worth of conventional bonds. The yield of zero coupon bonds has ranged from around 7-10%, compared with the 13% for conventional bonds. The magnitude of the savings depends on the maturity, the timing of the sale, and the credit rating of the issue.

Major Issues

Legal: Because zero coupon bonds are offered at very low prices, the amount of indebtedness (the face value of the bonds) will be many times larger than the value of the bond proceeds. This difference between the purchase price and the face value may cause the entity to rapidly approach or exceed its debt limitation. However, issued without a specified interest rate, zero coupon bonds may be helpful to entities unable to offer competitive interest rates.

Political: There are no political problems associated with the issuance of zero coupon bonds.

Applicability: Utilization of zero coupon bonds is gaining popularity among public entities for such purposes as water and sewer systems, health care facilities and housing.

Experience

See Appendix P, page P-1, for an example and person to contact in Boston, Massachusetts.

V. Contracted Services

This section comprises three types of private sector transportation services which might be available to a transit authority on a contractual basis. The focus of discussion here is not ad-hoc taxi service or ridesharing, but rather organized attempts to augment or substitute for regular transit service.

A transit agency's objective in using these mechanisms is to provide public transportation at a reduced cost compared to its own regular fixed-route bus service. These mechanisms might be particularly useful in low-demand areas or during off-peak times. The second mechanism, wherein the agency contracts with a private carrier for service, maintenance, or management, may satisfy objectives reducing cost or obviating expansion of agency-run service.

Q. Contracted Taxi Service
R. Contracted Transit Service/Maintenance/Management
S. Contracted Vanpooling

Definition

Contracting for taxi service is a cost effective way to provide public transit service to areas with (or during times of) low demand, where fixed-route scheduled bus service is economically inefficient. Often referred to as demand-responsive or dial-a-ride service, taxi services typically offer shared ride transportation between any two points within the service area. Taxicab companies are reimbursed for their services with provider-side subsidies or user-side subsidies.

Under the provider-side subsidy arrangement, the transit agency contracts directly with the taxicab company for service at a given unit cost, usually on a per-vehicle per-hour or per-mile basis. Under the user-side subsidy arrangement, riders select the taxicab company of their choice and pay for all or a portion of the fare with discounted tickets or coupons which they have purchased earlier or received free of charge from the transit agency. The providers turn in the tickets for reimbursement.

Financial Results

Contracting with taxicab companies for delivery of public transit service may be less expensive than operating conventional bus service. One public transit agency saves $600,000 a year by contracting for city-wide taxi service on Sundays, a low demand day. The user-side subsidy approach is advocated as a more cost effective approach than provider-side subsidies. Day-to-day competition is presumed to foster lower fares; however, this will depend on the number of providers and the degree of competition that exists between services.

Major Issues

Legal: Section 13(c) of the Urban Mass Transportation Act constrains the flexibility of transit agencies to replace existing service with contracted taxi service.

Political: Union-management agreements may include provisions that prohibit the transit agency from contracting out for services.

Applicability: Transit agencies have had limited experience with using taxicab companies to provide public transit services.

Experience

See Appendix Q, page Q-1, for examples and persons to contact in Santa Fe, Phoenix, and Norfolk, Virginia.

R. Contracted Transit Service/Maintenance/Management

Definition

Contracted Transit Service: Transit agencies may contract with private carriers to provide transit services, such as line-haul express bus service, regular route service or specialized services for the elderly and handicapped. Contracting for service may save transit agencies the cost of purchasing additional equipment. In addition, private carriers may provide services at a cheaper rate, because of lower overhead costs and of their ability to hire non-unionized or part-time workers.

Contracted Maintenance: Transit agencies often contract with private maintenance services to perform functions that require expensive tools and special facilities unavailable to transit agencies. The most common type of contracted maintenance work is engine overhaul and transmission services.

Contracted Transit Management: Many cities contract with transit management firms in order to have transit systems run by experienced professional management teams. The firms usually provide two or three top administrators who rely on local labor, resources and equipment to perform their jobs.

Financial Results

In general, contracting with private companies is used when the transit agency does not have the capability to provide needed services. The alternative of acquiring the equipment or expertise in a short period of time could be unreasonably expensive. The level of competition among private companies will directly affect the cost of contracted services.

Major Issues

Legal: Legislatively created transit agencies usually have the authority to contract for services.

Political: Union-management agreements usually restrict the use of contracting. Proposals for contracted service may result in union-management disputes.

Applicability: Experience has shown that contracting for transit services, maintenance and management may be better suited to the provision of new services rather than replacing existing services.

Experience

See Appendix R, page R-1, for examples and persons to contact in Houston and Tulsa.

Definition

Vanpooling is a form of ridesharing in which a group of 8 to 15 people who live close to each other ride together in a passenger van to a common work locale. Transit agencies may promote vanpooling by providing vans to interested groups as a means of improving mobility during rush hours. The agency may acquire the vans by leasing them from a third party or by actually purchasing the vans. The leasing company usually provides the vans and insurance and arranges for local maintenance of the vans at a nearby facility.

Whether the vans are leased or purchased by the transit agency, the vanpool drivers usually lease the vehicles from the transit agency. The drivers are responsible for collecting the monthly fares from their passengers and paying the transit agency or the leasing company. Instead of being paid a salary, the driver is allowed to ride for free and sometimes has personal use of the van on weekends.

Financial Results

Whether the vans are leased or owned, the riders' monthly fees are calculated to cover the costs of owning and operating the vehicles. Therefore, the costs to a transit agency are primarily administrative.

Major Issues

Legal: Legislatively created transit agencies usually have the authority to contract for services.

Political Issues: Disagreements with transit unions may arise, if the vanpooling programs attract riders from bus services.

Applicability: Vanpooling programs have been most successful in areas where long distance commuting is common.

Experience

See Appendix S, page S-1, for examples and persons to contact in San Francisco, Houston, and Norfolk, Virginia.

VI. Voluntary Participation Programs

The three mechanisms described in this section are ways that an authority can supplement revenue from other sources. The common element of the three is that they are voluntary on the part of employers, individuals, and/or businesses. Employer passes can supplement fare box revenues. Lotteries have been used in several cases to provide significant percentages of agencies overall annual budgaets. Private donations can be effective where there is a project which has a civic purpose appealing to private philanthropists.

The objective of agencies using the lottery is to fund a significant part of the budget without taxation. The objective of the other two is to supplement revenues, on a smaller scale. The last mechanism reduces the need for transit agencies to provide service in certain areas or times of demand.

T. Donations for Capital Improvements
U. Employer Sponsored Pass Program
V. Lottery
W. Private Provision of Services

Definition

In a few instances, local governments have successfully solicited donations from the private sector for transit related improvements. Such capital improvements are usually related to projects with strong public interest or support. Donors usually benefit from tax deductions for their contributions and good public relations. A well organized and highly visible fund-raising campaign may be necessary to generate large amounts of money. The campaign will give private companies confidence that their contributions will be publicly recognized and, thus, will enhance their image in the community.

Financial Results

Projects which can generate sufficient public interest are few in number. The size of the contributions will fluctuate with economic conditions, the ability of the campaign to publicize donors, and the perceived value of the publicity to the donors. In San Francisco, the Committee to Save the Cable Cars was able to raise $9 million in a two-year period.

Major Issues

Legal: If a private sector committee is chairing the campaign, it is advantageous to establish a non-profit tax-exempt committee to receive donations. This status will allow corporations to deduct their contributions and allow the committee to invest its contributions without tax liability.

Political: Soliciting large contributions from corporations requires a fund raising campaign involving prominent community leaders who have the time and capability to request donations from their peers.

Applicability: This financing mechanism has only been successful for transit projects which have strong public interest and high visibility.

Experience

See Appendix T, page T-1, for an example and persons to contact in San Francisco, California.

Definition

Transit agencies can raise revenues by attracting new ridership through employer pass programs. Firms participating in these programs distribute monthly transit passes through the workplace to their employees, usually at a discounted price. Experience indicates that lower pass prices provide strong incentives for employees to ride the transit system. The pass prices may be subsidized by the transit agency, the employer, or both.

Procedures for establishing and maintaining an effective employer pass program are relatively simple and do not generate a heavy work load for the transit agency. Agency staff time is needed to market the program and to advise employers on how to manage employee sales. In addition, agency resources are needed to print and distribute the passes as well as bill participating employers. Transit agencies rarely are involved in an employer's internal pass sales program.

Financial Results

Transit agencies can benefit from employer sponsored pass programs in three ways: increased ridership, subsidy of passes by the employer and other cash flow advantages associated with receiving payment at the beginning of the month before the service is provided.

If the transit agency subsidizes the pass prices, the employer pass program might result in a revenue loss to the agency. The loss would come from the portion of existing ridership, eligible to participate in the program, who switch from paying normal fares to buying discounted monthly passes. The potential loss, however, can be overcome if enough new ridership is attracted.

Major Issues

Legal: Transit agencies do not need special authority to implement employer sponsored pass programs.

Political: Employer sponsored pass programs have been well received. In some cities, major employers offer the pass program as a benefit to attract new employees.

Applicability: Successful employer pass programs are operating in large and small cities across the nation, typically where the transit service is reliable and where the central business district employs a large number of clerical and white collar employees.

Experience

See Appendix U, page U-1, for examples and persons to contact in Seattle and New Haven, Connecticut.

Definition

Lotteries have the potential of raising significant sums of money for public entities. Thirteen states currently operate lotteries, but only two of these states allocate a portion of lottery receipts to transit purposes. Operation of a lottery involves a number of functions including marketing, printing and distributing tickets, maintaining sales outlets and developing rules and regulations for conducting each game. Given the high potential for fraudulent practices, extensive security procedures are required.

Financial Results

A particularly successful lottery generated a $169 million profit in fiscal year 1980-81, of which $21.5 million was allocated to transit programs. The revenues generated by a lottery will vary by the number and type of games offered and the number of players. Because the funding source is not related to transit use, transit agencies may have to share the lottery proceeds with other public agencies.

Major Issues

Legal: There must be state legislation enabling the state and/or local governments to establish a lottery. In some cases, where state constitutions prohibit gambling, a constitutional amendment may be required.

Political: While opponents of lotteries have pointed to the sins of gambling, the opportunities for corruption, and the high rate of participation by the poor, lotteries have been politically popular as a way to raise revenue without levying additional taxes.

Applicability: One-fourth of the states in the U.S. have lotteries.

Experience

See Appendix V, page V-1, for examples and persons to contact in Pennsylvania and Arizona.

Definition

Private provision of transit service means public transit service which can be provided by the private sector without public subsidy or administrative support. In a number of areas, major employers and activity/shopping centers are taking the initiative to solve their own mobility problems by offering van pooling, car pooling or shuttle services. In other areas, private providers, such as jitney or private bus operators, offer services for a profit. These services are beneficial to public transit agencies in that they facilitate urban mobility and mitigate the need to expand public transit.

Financial Results

Any subsidized transit service which is replaced by non-subsidized private enterprise is a significant financial gain for the local transit agency.

Major Issues

Legal: In general, private companies are required to obtain, from state or local regulatory agencies, permits and certificates of public necessity to operate on specific routes. Frequently, these regulatory agencies control the fares that can be charged. These requirements make it difficult for private companies to compete with public transit services.

Political: Transit systems that wish to divest themselves of current service routes will face opposition from transit unions as well as criticism from those who expect tax supported transit agencies to provide service to all areas within its jurisdiction. However, the public is generally sympathetic if they understand that private provision is the more cost effective way to provide service.

Applicability: Most cities have potential opportunities to use, in one form or another, private transit services as a cost effective alternative to publicly funded transit service.

Experience

See Appendix W, page W-1, for an example and person to contact in Los Angeles.

VII. Recent Initiatives and New Ideas

The following is a collection of recent initiatives and new ideas for financing mass transit. Some involve the public sector, others only the private sector. In some cases, the approaches have been successfully implemented; others have not been tried. However, they are all representative of continuing efforts by local governments to facilitate urban mobility at minimum cost to the public sector.

Legislative Initiatives

Houston, Texas - As part of the 1973 enabling legislation for the Metropolitan Transportation Authority of Harris County (MTA), provisions were made for public/private joint development projects at stations and terminals. The state legislation, H.B. No. 657, allows MTA to acquire, by eminent domain, land within 1500 feet of an established center point of the station. The land can be used for commercial, residential, recreational, institutional, and industrial development projects.

Texas - In 1981, the Texas State Legislature enacted legislation providing state funds for the purchase of vans to be used for ridesharing purposes. The state will fund up to 80% of the cost of the van. The legislation (Article 663c, Vernon's Texas Civil Statutes) requires that the vans be used by non-profit service providers that do not receive any government subsidies. The purpose of the legislation is to encourage the private sector to support vanpooling operating costs.

Several van pool programs in the Houston area have received approval to purchase 50 vans with the assistance of the state. Available funding for the state's 80% share comes from the State Public Transit Trust Fund, which is used to assist overall capital development in transit. In 1981, the fund received an annual appropriation of $15 million.

California - The California Legislature recently passed Senate Bill 321, the Employer's Rideshare Incentive Act, which creates financial incentives employers to promote ridesharing by their employees (Section 17053, California Revenue & Taxation Code.).

a. Twenty percent of the cost of leasing or purchasing a van or bus for ridesharing can be credited toward California business income taxes.

b. Businesses may deduct, as ordinary and necessary business expenses, reimbursements given to employees for bus passes, carpooling, and vanpooling.

c. Employers making facility improvements specifically for the purpose of encouraging employees to ride the bus, walk, bicycle, or rideshare are entitled to accelerated depreciation deductions.

The California Legislature also enacted Senate Bill 320 that permits any taxpayer to deduct the costs of monthly transit passes purchased for use principally in the state or for the cost of participation in a private, third party or employer sponsored vanpool or buspool.

Deregulation

San Diego - The San Diego City Council deregulated taxi and jitney service in 1980. The city now issues 15 new taxi and jitney permits per month. Taxi and jitney providers are permitted to set their fares at any level they desire -- as long it is posted on the vehicle's window and does not exceed the maximum rate set by the City Council. Other regulatory changes included abolition of the public convenience and necessity certification requirement; provision for fixed route and shared ride services; and standardization of liscensing fees, insurance and reporting requirements for all paratransit vehicles.

Since deregulation, competition among providers has increased substantially. Fourteen companies with 27 vehicles now provide jitney service. They are permitted to offer unscheduled service and to serve more than one route. Many jitneys serve commuters in one route in the morning and evening, while serving another route during off-peak hours, such as the airport-hotel route. In general, taxis and jitneys charge a flat fare per trip. The jitney's fare is usually cheaper than the taxi's. (A trip from the airport to downtown costs $3.00 in a jitney versus $12.00 in a taxi.) The city initially tried to encouraged jitney service by offering information on potential routes and markets. However, city officials have found that inexpensive application fees ($100) and rapid completion of the application process (within a thirty day period) provide adequate incentives for new providers to enter the market. The city has not experienced any major problems with deregulation, except at the airport where tourists first encounter the deregulated taxi service. The city is working on a solution to this problem.

Atlanta - Atlanta deregulated its taxi services in the 1960's. Twenty years later, Atlanta passed a new comprehensive taxicab ordinance which imposes more stringent regulatory controls than were previously enforced. The ordinance was adopted at the request of the convention business community.

After deregulation, the taxicab industry doubled from roughly 700 vehicles to 1400 vehicles. The marketplace expanded from five companies to approximately 55 companies. At the same time, the convention business grew dramatically. In 1976 and 1977, the business community began to receive an excessive number of reports about visitors' unpleasant experiences with taxi operators. Concerned that the poor quality of service was discouraging business, the business community recommended a new ordinance be implemented. The Atlanta Chamber of Commerce was an active participant in drafting the new taxicab ordinance, providing both staff and funds. The ordinance finally passed in 1981.

The current regulations require three separate kinds of permits for drivers, vehicles and companies. The regulations also require affiliation of both drivers and vehicles with companies. Entry into the marketplace is controlled by regulations that place a ceiling on the number of vehicles permitted to operate and that place a floor on the number of vehicles which a company must have to go into business.

Local Development Corporations

Metro Districts - A metropolitan district is an area, formed under Colorado State law, having powers to tax, to issue bonds and to manage all improvements, such as streets, drainage, traffic and safety, and transportation, needed to support development. The districts can be created in both incorporated and unincorporated areas, before and or after development has occurred. The district can be created for a single purpose, such as transportation, or for multi-purposes.

The districts provide a vehicle for developers to finance public improvements that provide access to their projects. Developers wanting to establish a district must follow the procedures set forth in the law, requiring that a board of directors be formed and that the developer submit a service plan to the appropriate agencies for their review and approval. Once established, the district usually hires a management firm to be responsible for issuing bonds, overseeing construction of the improvements and retiring the debt. Its bonds are secured by mill levy assessments on anticipated increases in property values attributable to the new development. The jurisdiction with the taxing authority collects the property taxes and, through an intergovernmental agreement, transfers the funds to the metro district.

63-20 Corporations - A 63-20 corporation is a non-profit corporation established by a transit agency to finance and lease back, or possibly operate, certain components of a transit system. The corporation would purchase equipment or property by issuing tax-exempt bonds. The corporation's debt would be retired with revenue provided by the transit authority's lease payments in sufficient amounts to cover the operating expenses and debt service of the corporation. Named after a specific IRS revenue ruling first set down in 1963 (Revenue Ruling 63-20, 1963-1 C.B. 24), the corporation must meet certain conditions allowing it to issue bonds whose interest payments are tax-exempt. Generally speaking these conditions are:

1. The corporation must engage in activities which are essentially public in nature.

2. The corporation must be one which is not organized for profit except to the extent of retiring indebtedness.

3. The corporation's income must not inure to any private person.

4. The transit agency must have beneficial interest in the corporation while the indebtedness remains outstanding and it must obtain full legal title to the property of the corporation, with respect to which the indebtedness was incurred, upon the retirement of such indebtedness.

5. Bonds issued by one or more of these corporations would be secured by the revenue-producing potential of the corporation, much of which would be the result of a long-term facility lease to the transit agency.

There has been little experience with such a corporation for transit system ownership and lease-back. In addition, some lead time, usually six months to a year, is required to establish an IRS ruling that the non-profit organization qualifies as a 63-20 corporation. Despite these drawbacks, there are a number of advantages associated with establishing a 63-20 corporation.

- Bonds issued by a 63-20 corporation are independent of the statute of limiations for bonded indebtedness for the transit agency.

- Because lease payments by the transit agency have a first lien on all transit agency revenues, a corporation's bonds are highly marketable.

- Ownership of the leased property reverts to the transit agency once the outstanding debt has been retired.

Turnkey Programs

Equipment/Maintenance Package - Trailways Inc., a subsidiary of Continental Trailways, and Ryder Truck Rental have joined forces to market a combination equipment/management package to transit agencies. The Trailways/Ryder objective is to offer through sale or lease arrangements a low maintenance transit vehicle and maintenance package at a cost significantly lower than the cost to the transit agency of expanding service through its normal capital development and operating framework. Trailways will build suburban transit coaches suitable for Park & Ride and express bus service and Ryder will service the carriers at one of their many maintenance facilities around the country.

Park & Ride Development - The Houston Metropolitan Transit Authority (MTA) has developed a new concept of Park & Ride development which reduces normal development time by at least 50% and significantly reduces total land acquisition and development costs.

MTA identifies an appropriate area for development of the Park & Ride facility and issues a Request for Proposal (RFP) for a completed Park & Ride facility to be provided within the area by a predetermined date. Interested developers submit proposals in accordance with the established Park & Ride facility location and design criteria. MTA

selects a developer on the basis of several factors including cost and the specific location of the site. Through this process, MTA acquires both the land and the facility without issuing more than one RFP. MTA avoids the necessity of issuing RFP's for each phase of construction for the park & ride facility, because the selected developer handles construction through the private development process.

Unique Planning Approaches

Houston, Texas - The Regional Mobility Plan (RMP) is a 15 year comprehensive plan for mobility improvements, developed in 1981 by the Houston Chamber of Commerce in response to the serious transportation problems in the Houston metropolitan area. The RMP is a joint forecast of transportation and financing needs by local transportation agencies. The multi-agency effort, including representation by the state, county, city and the Metropolitan Transit Authority, estimated that traffic congestion is currently costing the Houston area citizens $1.9 billion per year in delay time, lost energy and increased insurance rates. The Plan calls for $16.2 billion in street, highway and mass transit improvements to alleviate severe traffic congestion and to achieve 1975 levels of mobility. The RMP planning process was a successful demonstration of intergovernmental as well as public/private cooperation toward achieving a jointly sponsored strategy for improved mobility. The RMP took approximately six months to complete.

Appendices A-W

Documented Experience

Denver, Colorado - Denver, Colorado recently has completed and opened a downtown transit mall which is located on 16th Street and covers a 14-block area from Lincoln Street to Blake Street. The mall runs through the center of Denver and is bordered by a mix of retail, highrise office, and some residential development. The mall offers continuous transit service via specially built shuttle vehicles.

Maintenance of the 14-block mall is being funded through a special assessment charged to property owners immediately adjacent to the mall corridor. The assessment and maintenance is being supervised by Downtown Denver, Inc. (DDI), which represents a group of downtown businesses. The first year assessment is anticipated to generate approximately $1.5 million for the 1982-1983 period.

Legal Issues: Enabling legislation for the creation of the special assessment district was passed by the Denver voters in 1978. The legislation (1978 Charter Revisions, Section A2.29) provides two methods through which a district can be legally constituted: (1) if 35% of the property owners agree to its creation or, (2) if the Denver Director of Public Works establishes the district by mandate. The latter was the approach actually used. (DDI had difficulty with the first approach due to its inability to locate an adequate number of "property owners," defined by the enabling legislative as those who have authority to sell land within the district.)

The enabling legislation which provides the authority for the creation of the special district and assessment collection expires 10 years after its establishment. Accordingly, DDI has signed a 10-year contract with the City of Denver and the "Transit Mall Maintenance District" to oversee the maintenance of the mall. The contract will be reviewed annually to determine both the adequacy of revenues derived from the special assessment for covering maintenance requirements, and the fairness of the formula utilized to derive income.

Political Issues: The assessment formula has created substantial opposition from property owners. Initially, the district was planned to cover two blocks of businesses on either side of the mall. However, the consultant hired to determine the boundaries recommended that the benefits of the mall would only extend one block. A large number of property owners objected to this limited geographical coverage of the assessment. They collected signatures from 55% of the property owners within the one block

district which, under the law, was sufficient to prevent the assessments from being collected. Downtown Denver, Inc. challenged the number of signatures in court and, during that time, managed to convince 7% of the property owners to reverse their decision. In return, DDI promised to redefine the district's boundaries for the next year, to include the second block off the mall. They also obtained first year contributions from businessmen in the second block who agreed they benefitted from the mall and who have committed to paying the assessments next year.

Timing: After Denver voters approved the ballot measure, it took one and a half years to complete the hearings required to establish the district. During that time, the district was contested by property owners as mentioned above. Construction of the mall was completed in October, 1982, at which time DDI began to provide maintenance service.

Financial Results: DDI anticipates collecting approximately $1.5 million in special assessments annually for maintenance of the Denver transit mall.

The formula for assessments is based on the assumption that the benefits of the mall will increase the total land value of the district by 7% and that the benefits of the mall decrease proportionately with distance from the mall. The 7% figure is defined as the "total benefit" in the following formula.

The first zone of benefit is apportioned at 50% of the total benefit to the first 100 foot segment of depth from 16th Street; the second zone is apportioned at 25% of the total benefit to the second 100 foot segment of depth; the third zone is apportioned at 15% of the total benefit to the third 100 foot segment of depth; and the fourth zone is apportioned at 10% of the total benefit to the fourth 100 foot segment of depth.

Private Sector Benefit: Property owners within the boundaries of the district should benefit from increases in land values near the mall. Projected increases by location are listed below.

LOCATION	LAND VALUE INCREMENT/BENEFIT
Property within 100 feet of mall	9.29%
Property within the second 100 feet of the mall	8.47%
Property within the third 100 feet of the mall	6.43%
Property within the fourth 100 feet of the mall	2.82%
TOTAL AVERAGE INCREASE	7.04%

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References

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Sharpe, Carl P., et. al. <u>A Value Capture Policy</u> (in 4 volumes). Report No. DOT-TST-75-85. Prepared for U.S. Department of Transportation, Office of the Secretary, Office of University Research. Washington, D.C. November, 1974. pp. 33-40.

Documented Experience

New York City - Lincoln West Associates, a group of developers, is providing $31.5 million to New York City's Metropolitan Transportation (MTA) to renovate the overcrowded 72nd Street subway station. The $31.5 million is part of a $100 million "amenity package" of public improvements for the developers' proposed housing and commercial project along the Hudson River. The contribution is the result of negotiations between the developers and the New York City Planning Commission to change the zoning of the project site from manufacturing to residential use.

Legal Issues: In New York City, the Board of Estimates has the authority to approve zoning changes. The Board of Estimates is made up of the Mayor, City Council and President of the Planning Commission. Its decision is based on the recommendations of the Planning Commission. The "amenity package" to support the renovation of the 72nd street subway station was negotiated initially by the legal counsel of the New York City Planning Commission the MTA and Lincoln West Associates.

Political Issues: In New York City, the Uniform Land Use Review Procedure applies to any appliction for a zoning change. The procedure requires the developer to submit an Environmental Impact Statement (EIS) that identifies the social and economic effects of the proposed project on the neighborhood. The EIS must also include an analysis of measures to mitigate any adverse effects created by the project. With this information, the Planning Commission and the Board of Estimates negotiate in an open and public manner with the developer to pay for some of the measures. The re-zoning request was politically controversial because of the size of the development involved and the concern that the location had potential alternative use for shipping purposes. Since MTA lacks any authority to grant zoning changes, its role in the political controversy was minimal. However, MTA played a major role in the negotiations as a "broker" between the developer and the Planning Commission on transit matters. MTA succesfully demonstrated to both the developers and the Planning Commission that the development would result in increased use of the subway station and that $31.5 million was justified as the amount needed to mitigate the impact of the development. The credibility of the MTA's request in the eyes of the Planning Commission appears to have been a crucial factor. Building this credibilty required political sensitivity to the interests of all parties.

Timing: The $100 million amenity package was approved by the Board of Estimates after one year of public hearings. The delay was primarily due to the extensive negotiations among the Planning Commission, Board of Estimates, Lincoln West Associates, and MTA.

Financial Results: The $31.5 million commitment toward renovation of the 72nd street station constitutes half of the total project cost of widening the station's platform and tunneling a new mezzanine under the station. The developer has signed a binding letter of agreement with the City of New York and the MTA, agreeing to pay cash or to provide a letter of credit guaranteed by a bank. If the developer pays in cash, he will provide $2 million up front to cover the costs of the design of the project and $29.5 million 6 months later. If a letter of credit is used, he will pay $31.5 million, adjusted for inflation, whenever the $31.5 million is requested. The money can only be used for improvements related to the 72nd street station.

Private Sector Benefit: Renovation of the subway station will improve access to the development, and thereby enhance the commercial value of the development.

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Other Experience

Fairfax County - Two developments in Fairfax County, Virginia recently have been proposed which require changes in zoning, from residential to commercial. One development is a $100 million office complex by Tycon Developers. This one million square foot project would introduce more traffic to an already over-burdened road system. Fairfax County has asked that Tycon Developers build a $3 million dollar 4-lane bridge which would directly serve the proposed development and lessen the additional congestion that would be created. This process is known as "proffering."

Another instance of the use of a "proffer" in Fairfax County is the $20 million worth of highway improvements being provided by two developers, Cadillac Fairview, Ltd. and Costain. The projects planned by these developers are across a state highway from each other and adjacent to an interstate highway. The two developments together would add 3.2 million square feet of office space, more than 700 dwelling units, a hotel and 200,000 square feet of retail on a total of 230 acres of land. The Office of Comprehensive Planning determined the needs of the area which would be created by these two

developments. A joint hearing was held but the two developers have entered into separate agreements with the state highway department to provide a total of $20 million worth of highway improvements, including grade separated access to the developments.

Financial Results: The developers will build for Fairfax County $23 million worth of highway improvements.

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Documented Experience

Beaverton, Oregon - In 1972, the City of Beaverton established a tax increment zone that includes nearly all of the downtown business community, an area of about 1.5 square miles. The zone was determined to be blighted due to physical deterioration and traffic congestion affecting transit service reliability. Bonds, backed by TIF funds, were issued to finance a $25 million urban renewal project that was approved by the city council and the urban renewal agency. The major components of the project are additional traffic lanes, improved bus stops, traffic signals, establishment of one way streets, and the elimination of railroad tracks. Several Park & Ride lots were included in the plan, but the transit agency has since decided not to build them within the TIF zone. Construction began in 1979 and will be completed in August of 1983.

Legal Issues: Following California's lead in 1951, Oregon was the second state to enact a Tax Increment Financing law (Oregon Statutes (ORS) 457.085). Oregon voters approved a constitutional amendment in 1960 and the state legislature authorized in 1961 Tax Increment Financing (TIF) as a means of finance for any renewal agency created by city or county ordinance to address the existence of blight. The law specifies that a variety of improvements, including those related to traffic and transit, may be financed with tax increment funds. The 1979 legislature amended the 1961 law, based on recommendations by a 1977 task force on urban renewal financing. The legislature enacted the following:

- o ORS 457.085 - Requiring local government approval of a plan submitted by the urban renewal agency, specifying land uses, methods of relocating present occupants, social, economic and physical impacts and justifications. (The purpose was to allow for more citizen involvement.);

- o ORS 457.460 - Requiring the urban renewal agency to submit an annual financial report. (The purpose was to subject the agency to the standard local budgetary process.);

- o ORS 457.420 - Stating that no more than 15% of the land area and no more than 25% of the assessed value of municipalities with under 50,000 population or 15% of the assessed value of

municipalities with over 50,000 population may be frozen for tax increment financed renewal at any given time. (The purpose was to minimize the temporarily adverse impact of TIF on all other taxing entities.)

Political Issues: Some active citizens in Beaverton have persistently objected to the use of TIF. They have argued that significant public costs are incurred for developing land for ultimately private ownership and profit; that the process may subvert requirements for voter approval required for use of public monies, and that tax rates of overlapping districts may need to be raised to increase revenues for inflation until the TIF tax base is unfrozen.

Timing: Under the Oregon law, only a local governing body ordinance is necessary to establish a district. In Beaverton, it took a few months to prepare the feasibility study and the plan necessary to receive the city council's approval. The plan was approved in 1973. Bonds were not issued until 1979 when work began on the improvements. (The city suffered in the mid-70s some political problems unrelated to the TIF district that delayed implementation of the district.)

Financial Results: The tax increment zone has generated in excess of $30 million for the urban renewal project since 1972. The TIF revenues for 1982 were $6.1 million. Since the annual debt requirement is $2.4 million, the urban renewal agency plans to retire the entire debt six years earlier than expected. The total assessed value of the project area in 1972 was $62 million. The expected assessed value of the same property in 1983 is approximately $120 million.

Private Sector Benefit: Tax Increment Financing has paid for public improvements which have helped increase property values for the private sector by $57 million over the last ten years.

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References

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Hartman, Walt and Gary P. Winter. "Revised Tax Increment Financing Guide for City Planners, Community Development Directors and Project Administrators." Prepared by the Technical Assistance & Research Division for the Minnesota Department of Community Development. 1980.

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Documented Experience

San Francisco - The San Francisco County Board of Supervisors enacted in 1981 the Transit Development Fee Ordinance which authorizes the city to collect a one-time fee of $5 per square foot from owners or developers of new downtown office space. The fee must be paid as a condition of obtaining a certificate of occupancy. The proceeds from this fee will be used to pay for the capital and operating costs of additional peak-period public transit services.

The rationale for the fee has been that downtown development brings additional people into the city and their demand for service creates additional costs for the transit system. The additional peak-period traffic may require San Francisco's Municipal Railway System (MUNI) to acquire new buses, to install new lines, and to hire more personnel to operate and maintain the system. Therefore, it is argued, the new development should pay for the incremental costs of expanding MUNI's capacity to carry passengers generated by new office uses.

The fee is set annually by the Board of Supervisors. The fee is computed at a level so that the proceeds will be sufficient to pay for all capital and operating costs incurred in providing the additional peak-hour services. The fee is expressed in terms of a sum per gross square foot using the general formula: annual peak-period MUNI person-trips per gross square foot times current cost per additional peak-period MUNI person-trip. By ordinance, the fee cannot exceed $5.00 per square foot. The proceeds from the fee are held in trust by the city treasurer and distributed according to San Francisco's budgetary process.

The Finance Bureau of the Public Utilities Commission administers the program. It is informed of planned construction or conversion work by the city's Bureau of Building Inspection when the developer files for a building permit. After the developer is notified of the development fee, the Bureau of Finance and the developer agree on the amount of square footage that is subject to the fee. Sometimes this agreement requires detailed review of the architectural plans to ensure the common space is allocated fairly between the office space and the hotel or restaurant.

Legal Issues: The San Francisco County Board of Supervisors approved the ordinance in May, 1981. MUNI successfully argued that office development creates more congestion at peak-periods than any other type of development. The ordinance defines the boundaries of the downtown district and requires the $5 per square foot fee be assessed on "all accessible office space plus ancillary space," such as elevators, lobbies and other "common space". Hotels and restaurants are exempt from the fee. In buildings where hotels and restaurants are mixed with office space, the fee is based on the square footage of the office plus a proportionate share of the common space that can be assigned to the offices' use.

Litigation has been filed challenging the legality of the Transit Development Fee.

Political Issues: The May, 1981 ordinance was approved amid political controversy. Opponents of the ordinance objected on the grounds that the fee was a measure to control growth and, therefore, not in the city's economic interest. Some developers whose projects were already under construction protested that their projects would be taxed unfairly in a retroactive manner.

Timing: The political controversy surrounding the fee proposal delayed approval of the ordinance establishing the $5.00 per square foot development fee in downtown San Francisco. In addition, litigation is holding up collection of the fees.

Financial Results: No fees have been collected to date because the fee program is under litigation. However, the Bureau of Finance has reviewed all eligible office projects and estimates that the 58 projects which have received permits since May, 1981 would owe $37 million in fees to MUNI -- if the fee is upheld by the courts.

Private Sector Benefit: In the highly dense and desirable downtown San Francisco, mobility is essential to the success of any new office development. Expansion of MUNI, financed by development fees, will improve access to the downtown area, where the City Planning Department has been denying for several years developers permission to construct new parking spaces.

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Other Experience

Placer County, California - The South Placer Implementation Area in Placer County, California is expecting a total of 75,000 jobs to be created by the year 2005, due to the projected migration of

high-tech industries into the area. In May, 1982, Placer County adopted an ordinance requiring developers/employers to design ridesharing programs that will achieve a 20% reduction in the number of vehicle trips that would occur if all home-to-work trips were made in a single occupant vehicle.

An acceptable ridesharing plan is required as a condition of approval of their construction building permits. Where the developer is not the ultimate user of the building, the ordinance stipulates that the ridesharing requirements be enforced on subsequent users through land covenants or lease agreements. The ordinance has been approved by the County Board of Supervisors and the city councils of the three incorporated areas within the county, Roseville, Rocklin and Lincoln.

The ordinance requires developers of projects which will employ 200 or more people to submit a Transportation Plan to the appropriate entity when they apply for a conditional use permit or commercial/industrial building permit. The plan must include a description of the business activity, operating characteristics, an estimation of the commuting characteristics of the labor force, and a list of mitigation measures which will achieve the 20% reduction in vehicle trips. Specified in the ordinance, the mitigation measures may include (but are not restricted to):

- subsidies or provision of incentives to carpoolers and vanpoolers;
- payment of parking charges or other expenses of ridesharers;
- provision of amenities such as bicycle lockers, transit shelters, shuttle buses, etc.;
- funding of a vanpool program.

As an incentive to employers, the ordinance permits employers to provide 20% less parking space than required by code. This provision offsets the costs to the employer of providing a ridesharing program. The county estimates that the employer can save $2,000 or more for every parking space not constructed.

Financial Results: The cost to Placer County and the three cities in it is primarily the salary of the transportation coordinator who serves all four entities. The benefit to Placer County, which has not been quantified, is the reduced need for street and transit improvements to accommodate 8,000 employees (20% of the anticipated 40,000 increase over the next 20 years). In addition, the county expects the reduction in traffic to lower road maintenance costs for the county and the interstate highway system.

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Documented Experience

Portland, Oregon - To date, only the State of Oregon has authorized local transit agencies to use a payroll tax to generate revenue. Since 1970, the Tri-County Metropolitan Transportation Authority has imposed a .6% payroll tax. Revenue from payroll taxes in Oregon must be used for operating expenses before the revenue can be used for any capital expenditures. In 1980 and 1981, the Portland tax generated $35 million and $37 million, respectively, or 55% of the system's operating budgets in those years.

Taxes are paid quarterly, along with other state taxes collected by the state treasurer, by employers within the transit districts. The state, however, serves only as the collector of this tax. All revenues, except handling costs incurred by the state, are forwarded to the transit district.

Legal: The Oregon legislature enacted a state statute, ORS #267, in January, 1970 which enabled the creation of the Tri-County Metropolitan Transportation Authority. The legislation also permitted Tri-Met to impose a .6% payroll tax.

Political: The Portland business community strongly objected to the additional tax burden created by the corporate payroll tax. After the tax became law, it was challenged in court, but was found to be constitutional.

Financial Results: In 1981, Portland, Oregon raised approximately $37 million, which accounts for 55% of Tri-Met's 1981 operating budget.

Taxes are paid quarterly by employers within the Transit District along with other state taxes, which are collected by the State Treasurer.

Private Sector Benefit: Mobility for employers and employees reduces subsidized parking and the cost of commuting and enhances the value of the business district.

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Other Experience

Eugene, Oregon - This jurisdiction has also taken advantage of Oregon's corporate payroll tax to support public transportation. Lane County Mass Transit District imposes a .54% tax on the total payroll of local businesses. In 1981, Eugene received $4.9 million, or 63% of its operating budget.

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References

Institute of Public Administration. Financing Transit: Alternatives for Local Government. Prepared for U. S. Department of Transportation, Urban Mass Transportation Administration, Office of the Secretary. Washington, D. C. 1979.

Documented Experience

Cincinnati - An example of an employee-paid tax is provided by Cincinnati, Ohio. A 0.3% tax dedicated to transit is deducted from the paycheck of each employee who either lives or works in the City of Cincinnati. Money raised by the tax goes directly into the Transit Fund which is administered by the city for capital and operating expenses. The Southwest Ohio Regional Transit Authority (SORTA) is funded in part by the Transit Fund. In 1981, approximately $12 million were received by SORTA from the employee income tax, or as it called in Cincinnati, the "payroll earnings" tax. This represented about 30% of SORTA's total operating budget.

This tax was passed in 1973 when the City of Cincinnati purchased the assets of the private transit system which served the city. Voters approved the imposition of an employee income tax, in order to lower bus fares to 25 cents. Since 1973, revenue from the employee income tax has continued to rise.

Legal Issues: In 1972, the voters of Cincinnati approved a municipal ordinance that would raise the employee income tax from 1.7% to 2%, the additional 0.3% to be used for the purchase and operation of the nearly bankrupt local private transit company. At the time, the State of Ohio did not have a state income tax and municipalities were authorized to implement their own tax structure. When the state income tax was introduced, municipalities were allowed to retain their existing local income taxes.

Political: There was very little opposition to the original tax increase, because the public perceived the tax to be a means of improving poor transit service. The city-operated transit system and the employee payroll tax have been so successful that an effort was made two years ago to expand the system to a county-wide service and to broaden the tax base to include the entire county. This effort failed to obtain voter approval. Residents of the outlying areas voted against this measure, presumably because they were not willing to be taxed for a service without evidence that the service would be directly useful to them.

Timing: The tax increase was implemented April 1, 1973, less than a year after the voters approved it.

Financial Results: In 1981, the employee income tax generated $12 million, 30% of the $40 million operating budget for SORTA.

Private Sector Benefit: The cost of the tax to employees is offset by the benefits of increased mobility and low cost transit.

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Other Experience

Newport, Kentucky - A combination of employer-paid and employee-paid taxes is used in Newport, Kentucky to generate revenue for its local transit system, the Transit Authority of Northern Kentucky (TANK). Employees are taxed 0.4% of their earnings or may choose to pay an annual fixed amount of $100. Employers are taxed 0.4% of their net profits or may choose to pay an annual fixed amount of $150.

This tax officially is labeled in Kentucky law as a license fee. Payment of the tax is a requirement for persons, associations, corporations, or other entities to engage in business activities in the county.

Financial Results: This combination tax provided $1.4 million to TANK in 1981, or 24.4% of its total operating budget for that year.

Contact: Jim Seibert
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References

Institute of Public Administration. Financing Transit; Alternatives For Local Government. Prepared for U. S. Department of Transportation, Urban Mass Transportation Administration, Office of the Secretary. Washington, D. C. 1979.

Documented Experience

Kansas City, Missouri - In January, 1982, Kansas City Area Transportation Authority (KCATA) instituted a new transit pricing policy which includes a higher base fare, zone structure and peak-hour surcharge. The peak-hour surcharge is applied between the hours 6:00 to 9:00 a.m. and 3:00 to 6:00 p.m. The peak-hour surcharge is 10¢ higher than off-peak hours.

The objective of the new fare structure is to increase revenues for KCATA and to encourage off-peak ridership. The result of the new fare policy thus far is slightly higher farebox revenues but no demonstrable shift of ridership to the off-peak. In addition, general ridership has been declining. KCATA officials believe the 10¢ differential is not significant enough to encourage regular riders to change their commuting habits.

KCATA has decided to abandon the peak-hour surcharge in January, 1983 although a zone system will remain in place.

Legal Issues: Implementation of the new transit pricing structure and peak-hour surcharge required approval of the KCATA board of directors and the Kansas City city council.

Political Issues: General public opposition to the higher fare structure was no more than normally expected. However, several disputes between passengers and drivers over fare collection have created some public controversy over the peak-hour surcharge. Additionally, the labor union representing the bus drivers has objected to the surcharge on the grounds that it has made the driver's job more difficult.

Timing: Six months elapsed from the time the fare structure was developed and announced until the date of actual implementation. Some time delay is considered to be desirable in order to facilitate community acceptance of the higher fare structure.

Financial Results: Prior to initiation of the new fare structure, KCATA estimated that the net gain in fare-box revenues from the peak-hour surcharge for calendar year 1982 would be approximately $100,000. Total revenue gain from implementation of the higher fare structure was estimated to be approximately $1.3 million.

Given current revenue trends, KCATA estimates that the calendar year 1982 revenue gain will be about $1 million in additional revenue, $600,000 of which will come from the peak-hour surcharge. These estimates confirm the failure of the new fare structure to significantly create additional off-peak ridership.

Private Sector Benefit: The effect of the surcharge on increasing off-peak ridership may increase business activity along KCATA's routes during all hours.

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Other Experience

Washington, D. C. - The Washington Metropolitan Area Transit Authority (WMATA) operates both a bus system and a rail system. Prior to July 1, 1977, both the rail and bus systems charged a flat 55¢ for a peak-hour ride and 40¢ for an off-peak hour ride. A series of rate increases has been in effect since then. Between July 1, 1977 and July 1, 1978, both systems charged a peak-hour rate of 40¢ for the first three miles traveled and 7.5¢ for each additional mile. The off-peak fare was also a base 40¢ for the first three miles, but only 3.75¢ for each additional mile. On July 1, 1978, the rail system was equipped with an automated fare collection system which made fare collection easy and undisputable. At that time, fares were increased for peak-hour riders but decreased for off-peak riders. The variable portion was increased to 8.5¢ per mile for the peak-hour fare and was eliminated from the off-peak fare. At the same time, a new rail segment was opened and ridership increased from 35,000 to 100,000. Therefore, it is not possible to discern how ridership was affected by the peak-hour fare increase and simultaneous off-peak hour decrease.

Some peak-hour ridership probably was lost but the increased peak-hour fares and the more than anticipated use of off-peak fares has covered that revenue loss. Because the off-peak fares seemed even more attractive than before, a noon-hour peak is now in existence, which is providing an unexpected source of revenue.

Financial Results: Revenues have exceeded anticipated revenue increases because of the noon-hour peak phenomenon and the relatively inelastic demand for peak-hour rail service.

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References

Institute of Public Administration. Financing Transit: Alternatives for Local Government. Prepared for U. S. Department of Transportation, Urban Mass Transportation Administration, Office of the Secretary. Washington, D. C. 1979.

Peat, Marwick, Mitchell & Co., Public Transportation Fare Policy, Report No. DOT-TP1-10-77-19, U. S. Department of Transportation, May 1977.

Documented Experience

Boston - In 1973, the Massachusetts Bay Transportation Authority (MBTA) paid $19.5 million to purchase 145 miles of Penn Central Railroad right-of-way for possible future use. In 1976, the MBTA spent $24.2 million for the purchase of 125 miles of right-of-way from the Boston & Maine Railroad. In both instances, MBTA took advantage of the Urban Mass Transportation Administration's Advanced Land Acquisition Loan Program. This program, which has been used only four times since its creation in 1970, provides 100% funding through a low interest loan from UMTA for the purchase of real property which is planned for public transportation use within a 10 year period. If the property is used for transit purposes within the 10 year time limit, the property and development cost is eligible for a future UMTA capital grant (which effectively will retire the loan on an 80/20 basis). If the property is not used for public transportation within the time limitation, it must be sold and the original loan plus accrued interest payed back to UMTA.

As of late 1982, a substantial portion of the land acquired by the MBTA in 1973 had not been put into use for mass transportation purposes. MBTA has lacked sufficient funds to repair the right-of-way for its use. Accordingly, MBTA may be forced to resell the right-of-way to repay its UMTA loan when the 10 year term expires.

Legal Issues: The Advanced Land Acquisition Loan Program was part of the 1970 amendments to the Urban Mass Transportation Act of 1964. Although MBTA was operating commuter service over much of the right-of-way when it was owned by the Penn Central and Boston & Maine railroads, the transit agency was unable to apply for federal grants to improve the tracks unless it owned the right-of-way.

Political: There were no major political problems associated with either purchase. The public has shown much support for the acquisition of the rights-of-way.

Timing: Acquiring each loan took more than a year. This amount of time was necessary to complete the UMTA application process, appraisal of the right-of-way and negotiations with the railroads.

Financial Results: While the value of the right-of-way has not been appraised, MBTA estimates that the value of the land has increased at least as much as inflation. If the right-of-way had been bought by a set of multiple owners in 1973 and MBTA had to buy back the right-of-way today from the set of multiple owners, the cost would be "astronomical", according to MBTA. In addition some areas along the right-of-way are projected to experience significant increases in population growth. Consequently, MBTA still expects to need the right-of-way in the future.

The 1973 $19.5 million Penn Central loan was made at 6 7/8%. So far, federal grants of $5,317,000 have been used to pay off the loan. Applications will be made for grants totaling the balance of the loan in January, 1983. The $24.2 million loan for the Boston & Maine purchase was made at 8%. Grants totaling $1,316,500 have been received to pay off the loan. Lack of funds to make up the local share of capital grants has delayed repayment of the loan.

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Other Experience

Philadelphia - The 1976, the Southeastern Pennsylvania Transportation Authority (SEPTA) also used the loan program twice to purchase railroad right-of-way from the bankrupt Penn Central Railroad. Each purchase was $400,000 for remote suburban right-of-way. Neither parcel has been put to use for mass transportation purposes to date.

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Documented Experience

Denver - In 1981, the Denver Regional Transit District (RTD) leased air rights over the city's Civic Center Transit Facility to J.W. Galbreath and Company. The agreement will provide income of an estimated $55 million over the next 15 years. Galbreath was selected as the developer because of its past experience with public/private joint development, its willingness to meet RTD's financial requirements and of its proposed development. The air rights will be developed into 600,000 square feet of office space.

Under the lease agreement, Galbreath is obligated to pay RTD a minimum air rights rent of $400,000, in each of the 15 years of the lease. Galbreath will also pay RTD 38% of all profit it makes, after first deducting a 13.5% return on its cash investment. Upon expiration of the lease, RTD will own the building. In return, the RTD agreed to incorporate foundation support for the private development in its construction of the transit facility.

Legal Issues: RTD's enabling legislation permits it to lease air rights for development that generates funds to support public transportation.

Political Issues: Galbreath came under significant scrutiny from the public. The issue was whether RTD was "giving away too much in its lease". So many questions were raised, that a state legislative committee was requested to review the transaction.

The RTD lease payments are based on net income instead of gross income. Some argue this allows the developer to manipulate operating expenses so that its net income and, thus, lease payments, are minimal. RTD, however, argues that the lease agreement provides RTD with substantial control over the building's operating expenses. Among other provisions, the tenant would be in default of the lease if he did not lease the office space for its fair market value, and operate the building in a business-like manner with the purpose of maximizing cash flow. In addition, the lease requires that the level of all expenses incurred in operating, managing and leasing the building shall be reasonable when compared to that experienced by comparable building operations in the central business district of Denver. RTD also has the right to investigate and audit the records of the tenant at any time.

Timing: RTD selected Galbreath as developer of the Civic Center in 1978. In 1979, negotiations began which were finalized in 1981. During that time, over 100 meetings were held with community groups and public agencies to review the design proposal.

Financial Results: The RTD spent a total of $6.5 million on items leased to Galbreath of which, $2.6 million was for the land and $3.9 million was for the costs of the foundation. RTD expects to receive a 25% return on its investment ($1.6 million) from the lease for the first year of full operation of the building and to recoup its investment between the fourth and fifth years. Based on the assumption that the office building will be able to increase its net income at a rate of 6% per year compounded every five years, RTD estimates that income from the Galbreath lease will be as follows:

1985:	$1.6 million per year
1986-1990:	$3.1 million per year
1991-1995:	$5.1 million per year
1996-2000:	$7.6 million per year

The $400,000 per year minimum guaranteed lease payment was calculated to cover 100% of RTD's actual expenditure for the land above which the Galbreath building is located, plus RTD's cost to provide the foundation support. The cost of inflation will be recovered through the 38% participation factor in the cash flow formula contained in the lease.

(The 13.5% figure was a compromise between RTD and Galbreath. Initially, Galbreath insisted upon a 15.5% return on his actual cash equity invested in the project. The 38% participation was also the result of negotiations between the parties.)

Private Sector Benefit: Galbreath benefits from the opportunity to build an office complex in a highly desirable location. In addition, the proximity of the development to the transit facility will increase the value of the office space to employers.

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Other Experience

Miami - The Office of Transportation Administration (OTA) for Metropolitan Dade County (MDC) recently leased air rights over land adjacent to the Dadeland South station for the rapid transit system, currently under construction. OTA negotiated the agreement in

exchange for acquisition of the one acre site for the station. The air rights will enable the developer to build 600,000 square feet of office space, 50,000 square feet for retail space and a 300 room hotel.

Under the 99-year lease agreement, the developer must construct a 1000-car garage designed for transit patron use. Upon completion, the garage will be turned over to OTA which will assume operation and maintenance responsibilities.

Legal Issues: OTA and MDC contend that its Rapid Transit Zoning District Ordinance strengthened its position to negotiate with the developer. The Ordinance provides three significant powers: zoning, eminent domain, and the authority to prevent construction worth more than $10,000 on land under acquisition.

Political Issues: OTA did not solicit bids for this lease because of its prior experience with the Dadeland North Station. It was difficult to obtain the interest of several developers because of the size and cost of the project involved. The high interest rates at the time of solicitation discouraged developers from submitting proposals which would involve borrowing large amounts of money. In addition, developers were reluctant to risk the chance of losing proposals which would be costly to prepare. (OTA estimates that preparation of a proposal would cost a developer $300,000 or more.) OTA also contends that those developers who did invest the money to prepare such an expensive proposal and who lost the bid would be more likely to litigate OTA's decision to award the lease to another developer. Such litigation may seriously delay a project.

Timing: OTA's only major cost was the time required by legal counsel to draft the contract. While the "deal" was negotiated within a two-week period, the lawyers of both parties needed two months to complete an acceptable contract. With the "boiler plate" language in place, OTA hopes future contracts will take less time to complete.

Financial Results: The lease requires the lessee to pay 4% of unadjusted gross income for each year of the lease. Beginning in 1986, OTA expects to receive annual lease payments of at least $2 million and as much as $3 million a year in 1982 dollars. Thereafter, at the end of the lease, all improvements will become the property of OTA, clear of all encumbrances and without any cost to it.

OTA's investment in this lease was minimal. OTA received ownership of the land in exchange for the opportunity to lease the development rights.

OTA chose to base the lease payments on a flat percentage of unadjusted gross income, instead of net income, to avoid opportunities for the developer to manipulate his expenses for the purpose of significantly reducing his net profits and, thus, lease payments.

Private Sector Benefit: Convenient access to the rail system will increase the value of the office, retail, and hotel development to potential renters or visitors.

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Background

Leasing/selling development rights does not require acquisition of additional land or any front-end debt service for land purchased. In either case, the funds can be used to offset operating costs or to finance future capital investments. Whenever the financial analysis is supportive, transit agencies prefer to lease development rights. In contrast to a one-time payment from a sale, transit agencies prefer the steady stream of income for the term of the lease, usually 99 years.

The lease agreements frequently include terms which allow the transit agency to participate in the long term appreciation of land values. Many include inflation adjustment clauses. Some base lease payments on a flat amount plus a percentage of gross or net income earned by the lessees.

If the formula is based on net income, extensive financial auditing of the lessee may be required to ensure that the lessee has not manipulated his operating expenses in order to minimize his net income and, thus, his lease payments. For this reason, the Office of Transportation in Miami negotiated a lease with payments based on gross income. However, as described above, the Denver Regional Transit District agreed to use net income because the lease includes specific provisions giving the RTD control over the definition of operating expenses.

Usually, when a public entity condemns land for a legitimate public purpose, the entity assumes ownership for the corresponding air and subsurface rights. However, for a strong legal position, local public entities should have state legislative authority to lease, sell or otherwise permit the use of development rights for private purposes. Such state statutes should specifically provide that the condemning authority may sell or lease government owned air space.

Many states have enacted legislation to allow leasing of air space. For example, the Illinois statute provides "every municipality has the power to lease the space above and around buildings located on land owned for 99 years" as long as the space is not needed for street, alley or other public purposes. In another example, New Jersey has authorized the state to sell air rights to a municipality which can lease them to a private party for non-municipal use for as long as 99 years.

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Documented Experience

Fargo, North Dakota - The City of Fargo is in the process of building a city bus terminal, half of which will be leased to the Greyhound Bus Company. The site will also house an underground parking facility. UMTA is funding 80% of the cost of the terminal. The city is paying 20% of the cost with HUD Community Development grants. The Parking Authority is floating revenue bonds backed by parking lot fees to finance the underground structure.

Legal Issues: While UMTA is paying for part of the facility, it has agreed that as long as the city uses the lease proceeds to operate the public transit terminal, the City of Fargo does not have to return any of the proceeds to UMTA.

Political Issues: The public did not express any opposition to the leasing arrangement with the Greyhound Bus Company. However, the city encountered some difficulty in obtaining funds from UMTA for the project. It took a persistent local staff, with the help of the North Dakota congressional delegation, four years to secure the funds.

Timing: Negotiations with the Greyhound Bus Company took two years to complete, in part because the city had to find a client for Greyhound's original building in Fargo.

Financial Results: Greyhound has agreed to lease its share of the terminal for $30,000 a year for 10 years, with an option to renew its lease for two 5-year periods. For the 11th through the 15th years, the annual lease would be $42,000 and for the 16th through the 20th years, $50,000. The agreement includes an inflation adjustment clause and the requirement that the city find a client for Greyhound's original building. Greyhound must pay for its own improvements, property taxes and utility bills. The lease payments will be used to maintain and operate the terminal. The city estimates that $30,000 approximates the expected annual cost to the city of operating its share of the terminal.

Under a separate contract, the city is negotiating with Greyhound for 5% of the gross sales from the vending machines in the terminal building. If successful, the city estimates that the contract would generate an additional $20,000 a year for transit purposes.

Private Sector Benefit: Greyhound obtains a useful facility with no capital outlay and benefits from its linkage with intra-city transit.

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Other Experience

Toledo, Ohio - The Toledo Area Regional Transit Authority (TARTA), has been negotiating with several banks to rent space for automatic teller machines in five new downtown "loop" stations. Banks were chosen as potential renters because automatic teller machines are relatively clean operations and do not attract loiterers. Vendors of electronic games, on the other hand, have offered guaranteed revenues of an attractive level but have been turned down. Negotiations are on hold because a mutually agreeable price has not been reached.

Financial Results: TARTA is reluctant to reveal its preferred price because negotiations are still in progress. The amount is anticipated to cover the costs of maintaining the facilities.

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Background

The decision to lease or to sell public property by a transit agency should be based on a discounted cash flow analysis, evaluating the costs and benefits of each option in current dollars. The financial analysis should consider for the same period of time, the market value of the property and its potential for appreciation, maintenance and operating costs, tax revenues, lease payments and the reliabilty of lease revenues.

If the decision is to sell, the property in most cases will be sold to the highest bidder. If the transit agency decides to lease the property, it has three basic options for structuring the lease:

o Straight operating leases, whereby the transit agency rents space for a negotiated fee typically for a five to ten year period. The transit agency retains ownership and maintenance responsibilities for the facilities.

- Lease-purchase agreements, whereby the property is sold to the lessor on an installment basis. The terms of the agreement vary with the life of the asset or the purchaser's ability to pay. The sum of rental fees is usually related to the market value of the asset.

- Lease-sublease agreements, whereby the transit agency leases an entire building or other property to another public or private entity and then leases back a portion for its own use. The lease allows the transit agency to shift responsibility for operating and maintaining the building to the lessee. At the same time, the transit agency receives revenues on the portion of the building it does not need.

Within the structure of these three lease options, a variety of features can be included to make private leasing of public property attractive to both lessor and lessee. These include whether or not the building will be subject to property taxes, whether or not a downpayment is required, the degree of the lessor's control over the property, the deductibility of rental payments and/or other tax write-offs (also subject to IRS regulations), renewal options and the extent of direct or indirect public subsidies.

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Documented Experience

Los Angeles - In 1980, the Southern California Rapid Transit District (SCRTD) raised $29 million towards the purchase of 1000 new buses by selling 10-year equipment trust certificates at 8% to private investors. The certificate holders have title to 20%, or 200 of the new buses, and are leasing them back to SCRTD for an annual amount equivalent to one-tenth of the principal and 100% of the debt service on the certificates.

The SCRTD named a bank to act as trustee for the certificate holders. An investment banking firm, selected through a competitive bidding process, sold the certificates to a group of investors. The certificates were secured by the following:

1. the buses served as collateral;

2. a cash reserve fund was established which must at all times equal 25% of the principal amount of the outstanding certificates; and

3. an insurance policy was purchased which raised the equipment trust certificates' credit rating from BAA to AAA, thereby saving approximately $2 million in interest payments.

Legal Issues: The enabling legislation, which created the SCRTD, permits "the sale of equipment trust certificates" backed by the value of the equipment and the "Collateral Equalization Reserve Fund".

Political: Equipment trust instruments sold very quickly. However, over a year's delay was encountered while UMTA determined whether the federal government could finance 80% of the capital cost of the equipment through a normal UMTA grant. The central issue of UMTA concern is the continuing control of use provisions of the UMTA Act which requires equipment purchased by UMTA to be free from encumbrance during its useful life.

Under normal circumstances, UMTA would own an 80% interest in each of the 1,000 buses. However, UMTA finally agreed that its 80% grant entitled UMTA to own 100% of 800 buses and that the certificate holders owned 100% of 200 buses. This agreement enabled UMTA's interest to be totally unencumbered.

Timing: The equipment trust certificates sold very quickly.

Financial Results: SCRTD sold $29 million worth of certificates. SCRTD has deposited $7.5 million, or 25% of the $29 million, in the "Collatoral Equalization Reserve Fund" This fund protects the certificate holders' interests against fluctuations in the anticipated market value versus the original market value of the buses. It is similar to the reserve requirement on most debt instruments. SCRTD will earn interest from the "Collatoral Equalization Reserve Fund".

Under normal circumstances, a transit agency would receive a very poor credit rating on any debt instrument since fare box revenues are insufficient to cover operating expenses. However, a consortium of insurance companies, including Aetna and Travellers, have formed a company called MBIA to provide added insurance for debt instruments such as equipment trust certificates. In this instance, SCRTD purchased an MBIA insurance policy for .03% of the total value of the equipment. Standard and Poors automatically will provide a AAA bond rating for any debt instrument secured by an MBIA policy.

Private Sector Benefit: Investors are attracted to certificates by their tax-exempt interest and monthly payments on short-term maturities.

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References

Government Finance Research Center. "Elements of Financial Management #9: Governmental Leasing Techniques." Washington, D.C. 1980.

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Documented Experience

Houston - In 1979, the Houston Metropolitan Transit Authority (MTA) sold 53 Eagle buses to a local bank for $6.6 million. The bank and the MTA entered into a lease-purchase agreement for the buses at 6.3% fixed interest rate over 5 years with an option to buy back the buses for $1 at the end of the 5 years. The MTA was then able to invest the $6.6 million at market rates for 3 years between the signing of the lease-purchase agreement and disbursement of the money as allowed by the IRS.

The MTA used a 10% market interest rate to estimate its total expected financial gain. For most of the 3 year investment period, the actual rate has been well over 10%, producing even more revenue than expected.

Legal issues: The MTA enabling legislation allows MTA to enter into agreements with private companies for the lease, purchase, sale, etc., of equipment required for public transportation. In this context, the MTA was able to lease equipment purchased on its behalf by a local bank.

Political issues: MTA has not experienced any negative political feedback on its transaction to purchase the 53 Eagle buses. No federal funds were utilized for the purchase and the effective savings in normal delivery time and alternative costs of federally procured equipment were substantial.

Timing: The entire lease/purchase transaction took only several weeks to accomplish. Additionally, the delivery time on the Eagle buses was less than 120 days.

Financial Results: Using a 10% interest rate on investments for 3 years and a quarterly repayment schedule for interest and principle on the loan for 5 years, at the end of 5 years, the undiscounted net gain would be $435,500.

At end of 3 year investment period:	$3,533,600
Outstanding loan and interest payments:	-$3,098,100
NET GAIN	$ 435,500

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Other Experience

Los Angeles - The Southern California Rapid Transit District (SCRTD) has issued several revenue anticipation notes in anticipation of receiving UMTA Section 5 funding to support operating costs. Since Section 5 funding is allocated on a formula basis, it is viewed as a fairly good risk for an investment banking standpoint. SCRTD's alternative was to use capital currently invested at an 11% interest rate.

Instead, SCRTD floated notes at a tax-exempt 7% rate and invested the proceeds at market rates. SCRTD will make some revenue on the interest differential. In order to market grant anticipation notes, SCRTD had to prove its financial need and that it could not borrow more funds than required or for a longer period than could be justified.

Financial Results: With the grant anticipation notes, SCRTD earned approximately a net 4% interest on the invested portion of the grant anticipation notes. In addition, SCRTD did not have to withdraw any funds from its investment earning 12%.

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References

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Documented Experience

Houston, Texas - In 1981, the Metropolitan Transit Authority (MTA) in Houston, Texas entered into a lease-purchase agreement as part of a larger financing package to purchase eight new GMC buses and 84 rehabilitated older model GMC buses worth $8.4 million. To lower the total cost of the project, MTA negotiated a safe harbor lease with First City Leasing Corporation to sell for $1.2 million the tax depreciation rights associated with the vehicles. However, before MTA could sign the safe harbor lease, MTA needed to comply with the safe harbor leasing provision that 5% of project cost be funded with tax exempt debt. MTA compliance was complicated by uncertainty over its capacity to issue bonds.

The solution was to solicit bids for a $500,000 lease-purchase agreement. The winning bidder was Western Bank which offered the sum at 11.5% for a five-year period. Thus, Western Bank holds title to 5% of the buses purchased for five years, at the end of which time, the bank will sell its 5% interest to the MTA for a nominal fee.

In 1982, MTA again entered into a safe harbor lease agreement with First City Leasing Corporation for 65 rehabilitated GMC buses. First City Leasing paid $1 million to acquire the tax benefits on the $7.9 million local share of the $39 million total project cost. This time, MTA signed a five year lease-purchase agreement with Capital Bank for $1,250,000 to satisfy the tax exempt funding requirement. In both cases, the lease-purchase agreement involves only one investor, the bank.

Legal Issues: MTA experienced no significant legal problems with structuring its lease-purchase agreements to secure the 5% tax-exempt equity to meet the safe harbor leasing provisions.

Political Issues: MTA's use of the safe harbor leasing provisions and its selling of tax benefits received generally favorable acceptance in the Houston community.

Timing: No significant delays were encountered in structuring the safe harbor transaction. However, MTA officials indicate that UMTA review and approval did delay the transaction.

<u>Financial Results</u>: MTA was able to reduce its initial outlay by $500,000, and $1.25 million, respectively, on the two lease-purchase transactions.

<u>Private Sector Benefit</u>: Investors are attracted to lease-purchase agreements by their tax-exempt interest and short-term maturities.

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Documented Experience

New York City - In October of 1981, MTA made an agreement with Metromedia, Inc. for the purchase of 620 buses and 12 commuter railcars. No federal funds were involved. Metromedia put up $15.5 million toward the total purchase price of $102 million. The buses are leased for 13 years and the railcars for 20 years, after which each vehicle will be purchased by MTA for $1. Metromedia will make a 329% return over a 13-year period on its investment.

Legal Issues: The Economic Recovery Tax Act of 1981 (ERTA) and 1982 Tax Equity and Fiscal Responsibility Act have revised the rules regarding leasing. The revisions provide transit agencies with the following advantages:

- Leases no longer have to demonstrate a before tax profit. They can be written for a nominal value
- Transit agencies and "mass commuting vehicles" now are eligible for safe harbor leasing
- Only the non-federal share of any mass commuting vehicle may be leveraged
- The lease term is based upon the longer of 150% of the Asset Depreciation Range class mid-point life or 90% of the useful life. Buses equate to 13-1/2 years (150% of nine years).

Political Issues: Safe harbor leasing results in a direct loss to the U. S. Treasury, because it substantially reduces federal tax liabilities of participating private corporations. The potential drain on the Treasury has made safe harbor leasing a controversial topic in Congress.

The transit industry and its advocates argue that the safe harbor provisions will enhance the nation's overall economic picture and that the loss of tax revenues will be more than offset by the significant investment in the transit industry created by the safe harbor provisions. This dispute makes extension of the provisions uncertain.

Timing: Leverage leasing is available to almost any transit agency which has the power to enter into a lease with a private company. Usually, no special state on local enabling legislation is required to use the safe harbor provisions.

Financial Results: MTA recovered 15% of the purchase price.

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Private Sector Benefit: Private corporations purchasing the vehicles can depreciate the full value of the local share of the vehicles over a five year period.

Other Experience

Los Angeles - SCRTD entered into a safe harbor lease agreement with BorderPipeline Company in the fall of 1981 for buses which had been purchased earlier that year. Eighty percent of the purchase had been funded by the federal government, so SCRTD was only able to sell the tax benefits on the twenty percent ($23,820,000) funded locally by equipment trust certificates. Border Pipeline paid $3.9 million in cash up front and a "phantom debt" was written for the remaining $20 million. The lease extends for 13-1/2 years and at its termination SCRTD will purchase all the vehicles for $1.

Financial Results: SCRTD recovered 16% of the local portion of the purchase.

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Cincinnati - Queen City Metro made an agreement with First National Bank to purchase 87 buses in January of 1982. The federal government funded 80% of the $13 million purchase. First National Bank put up $2.5 million in cash. The remaining portion of the local funding came from $2.1 million in industrial development bonds.

Financial Results: Queen City Metro saved 46% on the local portion of the purchse.

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Houston - The MTA has used safe harbor leasing on two separate occasions. In December 1981, MTA sold the tax benefits on eight new GMC buses which had been purchased earlier that year, and 84 rehabilitated older model GMCs. First City Leasing Corporation paid $1.2 million of the $8.4 million total cost of the project, for which no federal money was used. In order to meet the Safe Harbor leasing requirement of 5% tax exempt funding, the MTA, which is unable to issue bonds, entered into a lease-purchase agreement with Western Bank for $500,000 over a five year period. The lease agreement with First City Leasing will last 13 years.

In 1982, once again MTA entered a safe harbor lease agreement with First City Leasing Corporation for 65 rehabilitated GMC buses. First City Leasing put up $1 million in cash to acquire the tax benefits on the $7.9 million local share of the $39 million total project cost. This time MTA signed a lease-purchase agreement with Capital Bank for $1,250,000 over 5 years to satisfy the tax-exempt funding requirement.

Financial Results: First City Leasing Corporation paid $1.2 million, and $1 million respectively for the tax depreciation rights.

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Documented Experience

New York City - The New York Metropolitan Transportation Authority (MTA) successfully has used vendor financing for the procurement of 825 subway cars from Bombardier, Ltd. Bombardier arranged for $659 million in loans from Canada's Export-Import Bank. Under the terms of the contract, MTA has agreed to repay the loan at a 9.7% interest rate over a 15-year period. Approximately $4 million were required as a down-payment. While the MTA will begin to make interest payments on the loan as soon as the contract becomes effective, payments on the principal will begin only after delivery of the last car. The principal will be repaid with revenues from long-term bonds and the interest will be paid out of MTA operating revenues.

The agreement with Bombardier is the result of MTA negotiations with both Bombardier and Canada's Export-Import Bank. Under a recently passed state law establishing negotiated procurement procedures, MTA had the flexibility to discuss the financial proposals with vendors after the bids had been opened and to bargain for modifications financially advantageous to MTA. Under standard competitive bidding rules, MTA would have been forced to accept the lowest bid, regardless of the terms of the financing package.

Legal Issues: State legislation was required for the MTA to undertake a negotiated procurement for the purchase of subway cars. With this legislaion, vendors can offer terms for loans, loan guarantees, or other financial devices which may be more attractive to the transit agency over the long-term than the standard lowest bid.

The Organization for Economic Cooperation and Development (OECD), of which the U.S. is a participant, has an established minimum-interest floor, below which no trade agreement can be authorized (currently 11-1/4%). The MTA-Bombardier agreement violated the guidelines of the OECD. Accordingly, the Budd Company, a competitive vendor, is suing the MTA for violation of OECD minimum interest requirements.

Political Issues: The MTA-Bombardier agreement has created significant controversy, both nationally and internationally. MTA has received considerable criticism for accepting subsidized credits from foreign institutions. Additionally, the U.S

Government has criticized the Canadian Government for subsidizing interest rates below the OECD minimum. MTA has countered that its first obligation is to maximize savings for New York City taxpayers and MTA riders.

Timing: No particular time delays were experienced during the negotiated procurement phase of the MTA-Bombardier transaction. However, litigation may cause delay in delivery of the subway cars.

Financial Results: In the two train car purchase transactions to date, the MTA has secured a large amount of low interest credit. When the full price of the cars is escalated, MTA will have borrowed in excess of $900 million at 9.7% to 12.25%.

The benefit to MTA from the Bombardier transaction is hard to determine. If interest rates stay relatively high, MTA may accrue substantial benefit. However, if interest rates fall, then MTA may actually experience a net revenue loss over the long-term.

Private Sector Benefit: Vendors of rail cars are willing to arrange financing at attractive interest rates, because their market is limited and because they are anxious to demonstrate their vehicles in use to other potential buyers.

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References

Downey, Mortimer L. "Generating Private Sector Financing for Public Transportation." Presented to the Transportation Research Board Public Transportation Section Conference. Charlottesville, Virginia. August 9, 1982.

Documented Experience

Boston - The Massachusetts Bay Transportation Authority (MBTA) issued $8.2 million in zero coupon tax free bonds out of a total bond issue of $68 million in April, 1982. The receipts are being used for capital investments such as new rail lines, buses and other improvements. The proposal required the approval of the MBTA board, which is an independent authority with powers to issue debt.

The MBTA and its underwriter claim the zero coupon bonds sold like "hot cakes". They were priced at $17 per $1000, a yield of 8.25% to the investor. MBTA saved $6.9 million over the life of the bond project by employing the zero coupon innovation. The financing mechanism was so successful that the Commonwealth of Massachusetts has issued zero coupon bonds several times since the MBTA experience.

Zero coupon bonds are issued in the same way as conventional bonds--except that they literally have no coupons for the investor with which to collect interest payments. Instead, upon maturity of the bond, the municipality pays in one lump sum the face value of the bond to the investor. The investor benefits from the opportunity to purchase the bond at a discounted price and from the appreciation of the bond at maturity. He also does not face the yearly task of reinvesting the interest payments from his clipped coupons. The IRS has ruled that the capital accumulation or gain from the appreciation of this form of bond is tax exempt.

Legal Issues: The municipality or transit agency will need the same authority to issue debt through zero coupon bonds that it needs for conventional bonds. In addition, depending on state law, it might be desirable to change the language of legislation establishing debt limitations. Most limitations concern the amount of money municipalities can owe. Because zero coupon bonds are sold at discounted prices, the state may want to modify the legislation to limit the proceeds gained from issuing bonds rather than the face value of the bonds. Otherwise, the issuance of zero coupon bonds may cause the municipality to approach rapidly its debt limits, precluding opportunities to borrow for other purposes.

Political Issues: Zero coupon bonds have sold well in Massachusetts, the major place they have been issued. However, there have been two major concerns about zero coupon bonds:

- The use of zero coupon bonds may be limited by the size of the investment market interested in this kind of arrangement. The yield of zero coupon bonds has ranged around 7-8%, which is lower than the going 13% rate of conventional municipal bonds. However, these bonds were designed to reach the special market of small, less risky investors which includes people with very little cash to invest, people interested in starting long term education accounts for their children, etc. This special market, which is small in size, is easily saturated. Municipalities may be forced to find other financing mechanisms.

- Because bonds are sold at deeply discounted prices, the municipality must sell them at two to three times their par value in order to raise the desired amount of funds. For example, the municipality might have to sell $31.8 million of bonds in order to receive up front the $10 million in cash it actually needs.

Timing: Zero coupon bonds may sell extremely fast because they lock in what may be a very attractive financing rate for the investor for an extended period of time. Administrative time and cost is saved since there is no need to disburse coupon payments with this financing device.

Financial Results: The MBTA estimates that it will save $6 million in interest payments using the zero coupon bond method, compared with conventional bonds. Additionally, zero coupon bonds effectively transfer the yearly debt service cost of alternative financing techniques into a lump sum capital payment in the future.

Private Sector Benefits: The investor benefits from the opportunity to purchase bonds for very little cash and from the tax-exempt gain associated with zero coupon bonds.

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References

Merrill, Lynch, White, Weld, Capital Markets Group. "Financing Options." Prepared for the Transit Finance Commission, Denver Rapid Transit District, Denver, Colorado. 1982.

Documented Experience

Santa Fe - Sante Fe, New Mexico relies solely on three private taxi operators to provide public transit service anywhere within the city limits. Anticipating an increase in population and related needs for transit, the city decided to contract for taxi service as a cost effective alternative to setting up a publicly owned and operated bus system. The taxi companies serve approximately 40,000 people a year. Ninety percent of the ridership is elderly or handicapped.

Legal Issues: Local authority for contracting with taxicab companies is specified in special state enabling legislation (the 1978 Municipal Transit Law, Article 52, Section 3-52-1 through 3-52-13), giving cities broad authority to make a variety of arrangements for delivery of public transit service. The taxicab companies have signed annual contracts with the city that obligate them to provide 24-hour shared ride service. Under the contract, they also have agreed to be paid through a user-side program. The city pays half the fare of each trip through the use of coupons. Individuals, regardless of their residence, can obtain a free packet of 10 coupons at any designated distribution center by registering their name and address. Taxis accept the coupons for 50% of the taxi fare and record the amount on the coupon. The coupons are periodically submitted to the city for reimbursement, which usually takes two weeks. The coupons can only be used for rides within the city limits. The city council by ordinance sets the taxi fares.

Political Issues: Santa Fe has not experienced any political problems with the contracted services, in part because any taxicab company in the city can participate in the user-side subsidy program.

Timing: In 1981, when the city decided to rely on taxi service for its public transit service, only two companies with limited carrying capacity offered taxi service. To stimulate the program, the city purchased three cars and a wheelchair van and leased them to one taxicab company at a rate sufficient to recover costs. Since that time, a third taxi company started business in Santa Fe. Among the three taxi companies, there is now adequate carrying capacity to meet demand. As a result, the city does not expect to purchase additional vehicles.

Financial Results: The City of Santa Fe provides public transit service with taxicabs at a total cost of $400,000 a year, of which $100,000 is Federal Highway Section 18 funds, $100,000 is local money and $200,000 is fare revenues. Administrative costs to the city range between 4-5% of total program costs. Staff work is handled by 1-1/2 persons.

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Other Experience

Phoenix - The City of Phoenix contracts with Arnatt Cab Service, Inc. to deliver its Sunday transit service for the general public. Arnatt uses 19 cabs and one wheelchair van to pick up, upon request, and drop off about 300 people every Sunday between the hours of 8:00 a.m. and 5:00 p.m. The "Sunday Dial-A-Ride" service costs the city approximately $100,000 a year, which is $600,000 less than the cost of providing fixed route scheduled bus service.

Fares are based on 10 zones in the 270 square mile area. The adult fare is $1.50 for the initial zone. Senior citizens, handicapped, and children pay 50¢ for the base fare and 10¢ for each zone. Results of a 1981 passenger survey show that almost 60% of the patrons are elderly or handicapped and have incomes of $10,000 or less. Customer satisfaction is monitored through passenger surveys and consumer complaints*.

The contract provides that the city will pay Arnatt for its service on the basis of vehicle-hours in use -- $16.25 per cab and $17.25 per van. The per vehicle hourly rate includes drivers' wages of $4.80 per hour, an additional 15% to cover fringe benefits, payroll taxes and overhead. From August 31, 1980 to May 31, 1981, Sunday Dial-a-Ride operating expenses were $73,780. Farebox revenues were $6,168 or 8.4% of operating expenses.

The contract is renegotiated annually. New rates are determined after the city compares the costs with other dial-a-ride services in the Phoenix area and across the nation. The contract was based on the following three assumptions: (1) service should be tailored to demand on any given Sunday; (2) operators should make a reasonable profit; and (3) both parties consider a long-term relationship to be in their best interest.

* The wait is usually no more than 30 minutes.

Arnatt foresees that dial-a-ride programs will be of increasing importance in its future, especially because of the 1982 Arizona law deregulating transportation.

Financial Results: The City of Phoenix saves approximately $600,000 a year by contracting with a taxicab company to provide public transit service on Sundays.

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Norfolk, Virginia - The Tidewater Transportation District Commission (TTDC) has been contracting out a supplementary type feeder service. The commission leases 12- and 15-passenger vans to a taxi company. The taxi company provides the driver, the gas, the insurance, and the administrative work for $14 per hour per vehicle. This is much less than the $32 per hour cost to operate a bus, but only $1.50 an hour less than if the commission operated the vans.

The vans operate seven days a week, for a maximum of 11 hours a day. The vans service seven areas, totaling 400 square miles. The vans provide transportation between individual residences and transit stops. The service is coordinated with transit schedules.

TTDC has recently withdrawn one of the five vehicles contracted out and is operating the van itself. Customer complaints prompted an investigation that showed that the drivers were giving their friends free rides. After operating one van itself for a month, TTDC has found that they are serving ten more people per day than the private company had been, indicating that the taxi company had been losing one-third of the potential revenue for that service area. The increased passenger revenue has more than offset the $1.50 per hour difference in operating costs. As a result, all of the five vans will be operated by the TTDC after December 1, 1982. Three or four non-union drivers will be hired to operate this program.

Financial Results: In comparison to providing bus service, TTDC saves $18 an hour per vehicle by leasing vans to a taxicab company to provide shared ride services in rural areas.

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References

Chicago Area Transportation Study. "Regional Taxi Study: Taxicab Briefing Paper." Chicago, Illinois. 1979.

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Kirby, Ronald F., Kiram U. Bhatt, Michael A. Kemp, Robert G. McGillivray, and Martin Wohl. Para-Transit: Neglected Options for Urban Mobility. The Urban Institute. Washington D.C. 1982.

Gelb, Pat M. "Taxi Regulatory Revision in San Diego, California: Background and Implementation." Report No. UMTA-MA-06-0049-80-16, U.S. Department of Transportation, Urban Mass Transportation Administration. Washington, D.C. July, 1981.

Documented Experience

Houston - The Metropolitan Transit Authority (MTA) currently contracts with four private carriers to provide service on 13 of MTA's 17 park-and-ride routes. These four carriers operate a total of 112 buses. The rates range from $54 to $88 per revenue hour under recently negotiated contracts. Earlier contracts were based on a more expensive daily rate of between $363 and $375 per bus. MTA plans to eventually provide all park-and-ride service itself, but at the present time it does not have the capability to do so.

MTA also contracts for maintenance of its vehicles, such as body work, interior refurbishing, air conditioning retrofit and transmission or engine rebuilding. Generally, a formal invitation to bid is presented to qualified vendors, although, in some instances, a "sole source" contract may be automatically awarded to a vendor which is clearly the only one capable of providing the desired services.

The terms of the contracts are based on a specified number of buses; however, the contract may be amended to include more buses if necessary. Most contracts for major work are one to two years in duration. Contracts for smaller tasks may be for 60 or 90 days.

Legal Issues: MTA is authorized to contract for services under provisions in its enabling legislation.

Political Issues: MTA went through significant negotiations to obtain concessions from the labor union to allow MTA to contract out for services. Currently, MTA has the labor union's consent to contract out for services which MTA is not capable of providing in-house.

Timing: Contractors normally are selected within two to three months after bid solitation; however, some bids have been awarded within 30 days.

Financial Results: The FY 1982-83 budget for park-and-ride route service is approximately $10 million. This provides for a total of 13 routes and 119 buses (129 by the end of the year) from four contractors. In October of 1982, these four contractors carried 307,000 passengers. Fares range from $45 to $70 per month, depending on the route. The contractors are paid from $54 to $88 per hour, depending on the route. In the past, MTA contracted for service on a daily basis, paying as much as $375 per bus per day on certain routes.

Although the cost of operating the service is probably lower if provided in-house, the cost of acquiring the required 120 buses and a maintenance facility (at least $27 million) is out of the question for MTA at this time.

Private Sector Benefit: Private providers benefit from additional business requested by MTA.

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Tulsa, Oklahoma - The Metropolitan Tulsa Transit Authority (MTTA) began using the services of ATE Management Company in 1976 after the general manager resigned and a suitable candidate for the position could not be found. MTTA decided that they could afford to take advantage of a transit management firm's expertise and looked at several available services before choosing ATE. ATE placed members of its staff in the positions of General Manager and Assistant General Manager. ATE also provides consulting services. Any changes of personnel in the General Manager and Assistant General Manager positions must be approved by the MTTA Board of Directors. ATE usually contracts for three-year periods. However, a one-year contract was negotiated with MTTA in 1982, because of uncertainty in future levels of Federal funding available to MTTA.

Legal Issues: MTTA hired ATE under provisions in the transit agency's by-laws and in the Trust Indenture from the State of Oklahoma.

Political Issues: The need to cut costs has raised questions about the cost effectiveness of using ATE. Severe funding cuts will probably require MTTA to release ATE.

Timing: The contract is normally for three years, however, the most recent contract is for only one year. The contract can be cancelled on 90 days notice.

Financial Results: The FY 1982-83 contract with ATE is for $126,000. This amount covers the cost of providing the General Manager, Assistant General Manager and consulting services. Travel for consultants will be paid separately, but is limited to 10% of the total contract amount.

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Documented Experience

San Francisco - Rides for Bay Area Commuters, Inc. (RIDES), a private, non-profit corporation, promotes ridesharing by linking commuters with vanpools that serve their home-to-work routes. With a staff of 25, Rides screens potential drivers, keeps records and identifies potential passengers. The vans, however, are leased from Van American Network, Inc. in Wheaton, Maryland or owned by individuals participating in the vanpooling program.

Van American currently leases 230 vans to Rides. Van American sets the monthly fares for each passenger according to the van model, distance driven, insurance rates and maintenance costs. The leasing company is responsible for arranging the insurance and for maintaining the vehicle. The driver collects the money from his passengers and pays Van American directly. Rides will subsidize the total monthly costs of operating a vanpool by paying, at most, for one seat in the van when ridership is one person short.

Rides also helps owner-operated vanpools get organized. They provide how-to advise and contacts for individual owners. This type of operation has been facing high insurance rates because of the perception that there is a greater chance that an individually run vanpool will be poorly managed. However, Rides is currently negotiating with insurance firms to provide group insurance rates for owner-operated vanpools so that rates can be lower.

Ninety percent of the funding for Rides comes from CALTRANS, the state transportation department. The rest comes from the Metropolitan Transit Company (MTC), the local metropolitan planning organization.

Legal Issues: Originally, Rides was a program within the state transportation department. In 1979, when CALTRANS became concerned about the legality of a public agency serving as a third party public/private broker, the decision was made to form a private non-profit organization. The reorganization was not a problem.

Political Issues: Rides has not experienced any political opposition.

Timing: From 1973 to 1977, a carpooling service was provided by CALTRANS. In 1978, a vanpooling program was also established. CALTRANS joined the two programs together to form Rides for Bay Area Commuters, Inc. in 1979. It took approximately six months to successfully coordinate the two programs.

Financial Results: The total budget for RIDES in 1981 was $903,000. Actual operation of the vanpool program accounted for $216,000 or 24% of the total budget. Of this $216,000, 45% went to community outreach activities. The remaining 55% was spent on administration and coordination of the vanpooling program.

Private Sector Benefit: Companies leasing vehicles for vanpooling programs profit from providing their services to transit agencies.

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Other Experience

Norfolk, Virginia - The Tidewater Transportation District Commission (TTDC) provides an example of a public vanpool program which buys vans and then leases the vans to drivers of van groups. Started in 1977, under a grant from UMTA to lease vans to Navy personnel TTDC now serves both the private sector and the public sector. Currently, there are 91 vans on the road, of which 32 vans are used in a special program for the elderly and handicapped. Vans are leased for one-year periods to a driver who has already formed his own group. A driver may purchase the van from TTDC after the first year lease.

One full-time and three part-time employees administer the program and five part-time staff members maintain the vehicles.

Financial Results: Administrative costs are $32,000 per year and $190,000 per year for operating the program (including inspections and repairs). Currently, there is a $30,000 deficit.

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Houston, Texas - The vanpooling program of Houston's Metropolitan Transit Authority (MTA) leases 25 vans from a private van leasing company, Van Pool Services, Inc. Maintenance is also provided by this company. Insurance, however, is arranged by MTA.

MTA charges a monthly fare ($65 a month for a 40-mile round trip) that is higher than fares charged by an employer-sponsored vanpool ($50-$60). The higher fare is intended to recover 100% of MTA's operating costs plus a small percentage of MTA's administrative costs. Despite the higher fares, many commuters without access to an employer sponsored vanpool find MTA fares still lower than the cost of driving alone to and from work.

Financial Results: So far, MTA has been successful in achieving the 100 percent recovery of operating costs and a partial recovery of administrative costs.

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References

Maxwell, Donald A. "Vanpooling in the 1980's." Texas Transportation Institute, The Texas A&M University system.

National Association of Van Pool Operators, Nashville, Tennessee. (615) 966-4507, President - Richard Somerville, Texas Medical Center, (713) 797-0100.

National Ridesharing Information Center, Washington, D.C. (202) 426-0210

U.S. Department of Transportation. How Ridesharing Can Help Your Company: A Manual for Employers. Washington, D.C., May 1979.

Appendix T

Documented Experience

San Francisco - The private non-profit Committee to Save the Cable Cars raised $9 million in two years (1980-1982) for overhauling the cable car system. The city obtained a commitment from the Urban Mass Transportation Administration, for 80% of the project cost, based on a 20% local match. The mayor and the Public Utilities Commission General Manager turned to the private sector for the matching funds, because of recent property tax reductions and the belief that the cable cars have special appeal and value to the business community.

The mayor led the private sector campaign, promoting the cause and helping to organize the committee of prominent community leaders. The committee hired a full-time coordinator and obtained free office space in the downtown area. The staff ultimately grew to include three administrative and clerical assistants and two part time volunteers.

While the campaign started off slowly, it was successful in the end for at least two reasons:

(1) The campaign received a lot of publicity, primarily due to the mayor's involvement.

(2) The Committee hired a consulting firm to design a strategy for soliciting funds. The consultants researched potential donors and assigned appropriate solicitation goals. These goals were based on the company's size, location, profitability and its reasons for contributing.

Legal Issues: The San Francisco Board of Supervisors had to pass a resolution before they could accept the donations. At the request of the Committee to Save the Cable Cars, the resolution stipulated that the donations could be used only to fund the cable car project. This restriction helped the committee solicit funds from corporations which wanted assurances that their contributions would not be used as general funds.

The committee filed with the IRS as a non-profit tax-exempt organization. This status permitted corporations to deduct their contributions to the committee. The status also permitted the committee to earn interest on invested contributions without owing taxes.

Political Issues: The experience of this Committee demonstrates the importance of establishing a highly visible and well organized campaign to raise large sums of money. The Committee's initial efforts, including a kick-off luncheon, collection of endorsements, distribution of brochures, etc., did not result in many donations. The Committee reassessed its situation and recognized the need to have leaders at a certain level of prominence to individually solicit their peers. As a result, the Committee hired a fund-raising consulting firm which surveyed corporate prospects and identified connections between the Committee and the prospects.

The firm emphasized three factors which were helpful in raising the $9 million: adequate preparation for corporate solicitation, excellent contacts and publicity. The Committee found it necessary not only to identify those companies which could be considered prospects, but also the appropriate contact within the company and the right person to request the contribution. Publicity explained the campaign to the general public and reported events and campaign progress. The visibility of the campaign also helped corporations justify their contribution as an investment in improving their public image.

One of the major lessons learned from this campaign is that the prospects for the largest contributions should be contacted first. If the order of solicitations is not from top to bottom, prospects will adjust their giving plans downward to stay in an appropriately relative position to other donors.

Timing: The campaign has been in existence for two years.

Financial Results: The Committee to Save the Cable Cars raised $9 million for overhauling the cable car systems. The $9 million is the major portion of the $10 million local match necessary for an UMTA grant of $46.8 million. The state's Mass Transit Assistance Program provided $1.7 million. The Committee's operations budget, funded exclusively with income from invested contributions, was approximately $300,000 in 1981 (plus $100,000 donated services) and $530,000 in 1982 (plus $150,000 in donated services). Start-up costs in 1980 were $50,000.

Private Sector Benefit: Donations may improve or strengthen a corporation's public relations with the community. In addition, businesses will benefit from the number of tourists who come to ride the cable cars.

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References

San Francisco Chamber of Commerce. "Background: The Campaign to Save the Cable Cars." San Francisco, California. August 4, 1982.

Documented Experience

Seattle* - As of September, 1982, 137 employers were participating in the employer pass program, selling approximately 20,000 passes a month. Public outlets were selling approximately 28,000 passes a month.

First time participants are visited by a METRO representative who delivers passes and helps set up the program. Passes are generally distributed on consignment through certified mail, with transmittal forms used to assure security. Method of purchase is determined by the employer. Over-the-counter sales are used by most employers, although some utilize payroll deduction methods. Over-the-counter sales is the preferred method because it rarely requires as great a level of commitment by either employers or employees. Several methods of publicizing the program have been used in Seattle. "Inside car" cards placed on buses appear to have been the most successful. Bus commuters have pressured their employers to join the program after seeing the advertisements. Brochures and instruction packets are mailed to employers who are not participating in the program. METRO has placed press releases in local newspapers and has provided traffic reports in exchange for local radio spots. Funds have not been available for a major media advertising campaign.

Legal Issues: METRO did not need any special authority to promote the employer pass program.

Political Issues: The employer sponsored pass program has been well received in Seattle. A number of employers now cite subsidized transit passes as a benefit when recruiting through the newspaper.

Timing: Employer pass programs are relatively simple to administer. One to four days of clerical time per month is necessary to distribute the passes.

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* Rice Center updated summaries of the Connecticut and Seattle programs found in draft version of "Establishing an Employer Pass Program," prepared by S.G. Associates for UMTA, 1982.

Financial Results: Pass prices were recently raised relative to cash fares. Based on a 21-day month, the pass discount was lowered from 17% to 10%. Most participating employers subsidize at least $2 of the pass price. Many small employers and the First National Bank (3100 participating employees) subsidize 100% of the cost. Participating employers are selling approximately 20,000 passes a month, at a price $2 below the transit agency's discounted monthly pass price.

Private Sector Benefit: Employers offer the pass program as a benefit to attract employees. In addition, employers benefit from improved employee morale and sometimes a reduction in the need to provide parking spaces for employees.

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Other Experience

Connecticut - There are currently 42 employers participating in the Connecticut Transit employer pass program in Hartford, New Haven and Stamford. In June, 1980, 8269 passes were sold through employers and an additional 3962 passes were sold through public outlets. Monthly passes are also sold by drivers for exact change on express commuter buses. A variety of employers are participating, including many of the major insurance companies in the Hartford area.

Passes are delivered by Connecticut Transit supervisors to employers during the last three days of the month. Passes are sold to the public and through employers during the first and last three days of each month. Both over-the-counter sales and payroll deduction methods have been used by participating employers.

At the beginning of the program, direct mailings were made to the 100 largest employers in the Hartford area, and presentations were made to the Hartford Chamber of Commerce and other industry groups. However, the greatest success has come through word-of-mouth communication among transit users. As a result, substantial investment in promotional activities has not been necessary.

As of September, 1982, monthly passes were selling for $20 based on a 60¢ fare. Many companies, and most of the larger employers in the program, subsidize $3 of the pass price. This figure was not recommended by Connecticut Transit, but informally became the local standard.

Financial Results: Participating employers are selling approximately 8,300 passes a month at a price $3 below the transit agency's monthly pass price of $20.

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References

Dretz, Douglas and Michael Holoszyc. Sacramento Transit Fare Prepayment Demonstration. Report No. UMTA-CA-06-0102-80-1. U.S. Department of Transportation, Urban Mass Transportation Administration. Washington, D.C. 1981.

SG Associates, Inc. Establishing An Employer Pass Program. Prepared for U.S. Department of Transportation, Urban Mass Transportation Administration, Office of Service and Management Demonstrations, Pricing Policy Group. Boston, Massachusetts. 1982.

Documented Experience

Pennsylvania - In 1972, the Pennsylvania legislature authorized a statewide lottery to benefit senior citizens. The lottery revenues were dedicated to programs by the State Department of Aging and the Department of Transportation.

The lottery law stipulates that 50% of the proceeds be returned to the players in the form of prizes. The remaining funds are to be appropriated annually to two transit and two nontransit programs, all for senior citizens. The Department of Transportation subsidizes mass transit services for the elderly by compensating the 16 transit districts for 75% of the total fares for senior citizens using mass transit during off-peak hours. The Department of Transportation also offers a 75% discount on taxi fares for the elderly, through an agreement with the Yellow Cab Company. Senior citizens pay 25% or 25¢, whichever is greater. There is an advance reservation (24 hours) requirement. The Department of Revenue also finances with lottery revenues a "Property Tax and Rent Rebate" program and a "Senior Citizen Inflation Dividend" program.

Operating the Pennsylvania lottery is a complex business which includes, but is not restricted to, all of the following functions: marketing; security; printing, packaging and distribution of the tickets; sales; and developing rules and regulations to conduct each game and payment of prizes. Two functions are considered to be essential to the success of the lottery: (1) given the potential for fraudulent practices, extensive security procedures and measures are needed to guarantee the integrity of all lottery games; (2) marketing efforts are needed to increase the number of licensed sales locations and to promote ticket sales. Total costs of running a lottery can run as high as $18 million a year, as is the case in Pennsylvania, where that amount equaled 4% of the lottery's gross income in 1981.

Legal Issues: In 1971, the state legislature passed a law (Act No. 91, the Laws of Pennsylvania, Session of 1971), authorizing the establishment of a statewide lottery. The law created a Division of the State Lottery within the Department of Revenue and gave it

a $1 million budget to establish the lottery. The law specified that the lottery receipts would pay for payment of prizes, for payment of costs of operation and administration of the lottery and for subsidy of the senior citizen programs. The law was amended in 1980 and 1981.

Political Issues: In general, lotteries are controversial sources of revenue. In Pennsylvania, the law was enacted after a long period of debate. Critics of the lottery pointed to the sins of gambling, the opportunities for corruption and the high rate of participation by the poor. The compromise was to use lottery proceeds to subsidize senior citizens programs.

Timing: After the lottery law was passed in 1971, it took the Bureau of State Lotteries approximately six months to establish the procedures for the games, the rewards, and the distribution network of retailers who sell lottery tickets. The senior citizen programs first received lottery funds in FY 1972-73.

Over the past 10 years, as the public has become more familiar with the lottery, the proceeds allocated to the programs has increased significantly.

Financial Results: The lottery has generated significant revenues for the State of Pennsylvania. Lottery sales in 1976-1977 totaled $152.2 million and in 1979-1980, $387 million. In 1980-1981, lottery sales were $427 million, of which $169 million were net proceeds. Transit programs for senior citizens received $21.48 million of these funds. The remaining net proceeds were used for other specific programs for senior citizens, such as property tax, rent rebates, and inflation dividends.

Private Sector Benefit: The retail outlets selling lottery tickets receive a small commission for every ticket sold. In addition, they benefit from a larger volume of people visiting their stores.

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Other Experience

Arizona - The Arizona lottery was established as a result of a citizen's initiative, passed on November 4, 1980. The proceeds of the lottery were originally slated to be placed in the General Revenue Fund. However, in July, 1981, the legislature earmarked $190 million of lottery revenues over the next 10 years for the Local Transportation Assistance Fund. In 1991, the legislature will reconsider the issue of allocation of lottery funds.

The funds are allocated to each incorporated city and town in the state on the basis of population. The legislature has committed itself to appropriate sufficient funds out of the lottery proceeds, or other revenues if necessary, to meet a minimum distribution of $20.5 million a year. For cities over 300,000, namely Tucson and Phoenix, the funds must be spent on mass transit, as capital or operating assistance. Cities and towns under 300,000 may use their funds for any transportation purpose, including road maintenance. Each city or town is guaranteed to receive a minimum of $10,000 a year.

Financial Results: In FY 1981-82, a total of $115 million was generated by lottery sales; net revenue was $44 million. The City of Phoenix received $7.8 million, and the City of Tucson received $3.4 million.

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References

The Pennsylvania Lottery Annual Report, 1980-1981. The Commonwealth of Pennsylvania, Department of Revenue. Harrisburg, Pennsylvania. 1981.

Documented Experience

Los Angeles - Six private bus companies operate 132 commuter-express routes with approximately 140 buses in the greater Los Angeles region. Five thousand people ride them daily. They typically serve non-downtown routes, such as the Ventura to El Segundo route which are not well served by public operators. Six public agencies operate 69 commuter express and 11 subscription routes, primarily to the downtown area. They operate 482 buses; 70,900 people ride them daily. The two largest agencies are the Southern California Rapid Transit District (SCRTD) and the Orange County Transit District (OCTD).

Legal Issues: The California Public Utilities Commission (CPUC) regulates all private bus operators.* All must meet CPUC "public convenience and necessity" requirements before receiving a certificate or permit to operate. The applicant must demonstrate that he/she will not be duplicating an existing well run bus service. If the applicant wants to serve a route with existing service, it must prove that its schedule, fares, and potential clientele are sufficiently different to avoid "unfair" competition with other private carriers. Although CPUC does not regulate public operators, transit districts have the opportunity to object to the proposed service on grounds that it will adversely affect public operations.

The CPUC also regulates fares. The applicants' fares are set at the time certification is granted. Thereafter, the operator must receive CPUC approval to increase fares.

In general, CPUC decisions protect existing private carriers from "unfair" competition by other private carriers. However, recent CPUC decisions reflect some support for limited competition between operators. In January, 1980, CPUC issued a landmark decision granting American Buslines (Trailways) a certificate to compete on specified Southern California routes already served by Greyhound.

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*Public Utilities Code Div. 1, Article 2, Sections 225, 226, 1031-1063.5 and Div. 2, Articles 1-6 and Chapter 8, Sections 5351-5419.

Political: The CPUC certification process allows both public and private operators to protest an application. If the commission decides the protest is substantive, a hearing is required. Both public and private operators will protest if the proposed service will compete with their existing services. Both the SCRTD and OCTD have protested many commuter bus applications. Usually, their formal protests are withdrawn if the private carrier will consent to future expansion of public transit that may "directly or indirectly . . . divert, lessen or compete for the patronage or revenues" of the private operator's proposed service. Both transit districts seek this kind of waiver because their respective enabling legislation prevents SCRTD from competing with private operators without their consent and requires OCTD to buy out competing operators.

Timing: A private operator may receive a CPUC permit to operate in less than three months. However, if a hearing is required, the application may be delayed anywhere from three to six months.

Financial Results: The Southern California Association of Governments (SCAG) estimates that the cost of operating private bus service in the SCRTD and OCTD areas is approximately $2.79 per revenue mile. SCAG estimates that private companies, on average, could operate 22 public routes for 50% of the public operator cost. In addition, SCAG estimates that if the private companies, under contract, took over operation of these 22 public lines, with no changes in fare structure, the needed public subsidy would be reduced by $5 million or 97%. SCAG attributes the lower costs to five advantages that private operators have over public operators:

- Lower salaries are paid to drivers;
- Overhead expenses are less;
- Part-time drivers can be used more;
- Worker-drivers who work near the bus's destination, eliminate dead heading; and
- Terminal locations can be strategically placed if the operator's service is in one geographical location.

Private Sector Benefit: Private carriers benefit from the profits they collect for providing their services.

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References

"Commuter and Express Bus Service in the SCAG Region: A Policy Analysis of Public and Private Operations." Southern California Association of Governments, Transit Section. Draft report. February 1982.

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